

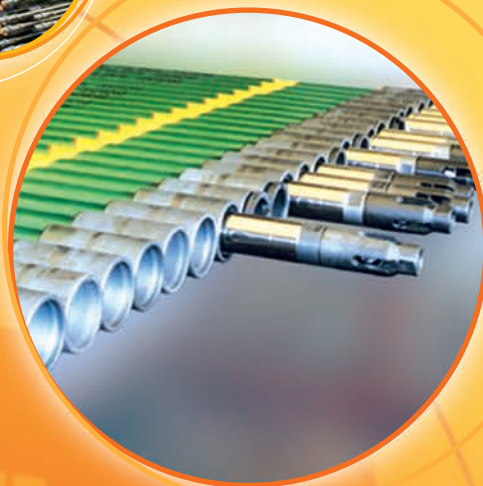


山東墨龍石油機械股份有限公司

Shandong Molong Petroleum Machinery Company Limited*

(a Sino-foreign joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 568)



2017
Interim
Report

* For identification purpose only

I. IMPORTANT, CONTENTS AND DEFINITIONS

The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”) and the directors (the “Directors”), supervisors (the “Supervisors”) and senior management (the “Senior Management”) of the Company hereby warrant that there are no false representations, misleading statements or material omissions contained in this interim report (the “Report”), and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents.

The person-in-charge of the Company, Mr. Zhang En Rong, person-in-charge of accounting, Mr. Liu Min and the manager of the accounting department, Mr. Ding Zhi Shui declare that the financial report contained in this Interim Report is true, accurate and complete.

All Directors attended the Board meeting for considering this report.

The Company’s audit committee (whose members include three independent non-executive directors) has held a second meeting within six months ended 30 June 2017, has discussed the accounting standards and practices adopted by the Group, internal control and financial reporting issues, and has reviewed the unaudited interim report for the six months ended 30 June 2017. According to discussion of the meeting, audit committee believe that the financial statements is in accordance with applicable accounting standards and fair to reflect the financial position of the Group and the performance for the six months ended 30 June 2017. The interim results for the six months ended 30 June 2017 were not reviewed by the auditor of the Company.

The Company asks investors to read the full text of interim report and pay attention to the following risk factors:

- (1) Global economy fluctuation and oil drilling industry investment and demand fluctuation change, will directly lead to the fluctuation of product demand, we will timely adjust the product structure and market layout according to market changes;
- (2) The abnormal change in the price of raw materials will directly affect the production cost of the product, which will directly affect the price of product;
- (3) The abnormal exchange rate of RMB will affect the export business of the product. We will always pay attention to changes of exchange rate and take various measures to avoid the risks arising from exchange rate fluctuations of RMB.

The Company does not plan to distribute cash dividends or bonus shares, nor capitalizing common reserve.

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Definitions

Item		Content
"Company", "Parent Company", "the Company", and "Shandong Molong"	refer	Shandong Molong Petroleum Machinery Company Limited
"the Group"	refer	the Company and its subsidiaries
"SZSE"	refer	The Shenzhen Stock Exchange
"SEHK"	refer	The Stock Exchange of Hong Kong Limited
"Listing Rules of SZSE"	refer	the Rules governing the listing of securities on the Shenzhen Stock Exchange
"Listing Rules of SEHK"	refer	the Rules governing the listing of securities on the Hong Kong Stock Exchange
"Renminbi" or RMB"	refer	Renminbi, the lawful currency of the People's Republic of China
"Hong Kong dollar"	refer	Hong Kong dollar, the lawful currency of Hong Kong special administrative region of the People's Republic of China
"EUR"	refer	Euro, the lawful currency of Euro zone member states
"USD"	refer	U.S. Dollar, the lawful currency of the United States of America
"Director(s)"	refer	the director(s) of the Company, including all executive, non-executive and independent non-executive directors
"Supervisor(s)"	refer	the members of the supervisory committee of the Company
"the Board"	refer	the Company's board of directors
"the reporting period"	refer	from 1 January 2017 to 30 June 2017
"2016 annual report"	refer	The Company's annual report for the year ended 31 December 2016 published on 1 May 2017
"%"	refer	Percent

II. COMPANY PROFILE AND MAIN FINANCIAL INDICATORS

I. Company Profile

A Shares/Domestic Shares	Stock Abbreviation	*ST墨龍	Stock Code	002490
	Stock Exchange of Listed Securities	Shenzhen Stock Exchange		
H Shares	Stock Abbreviation	Shandong Molong	Stock Code	00568
	Stock Exchange of Listed Securities	The Stock Exchange of Hong Kong Limited		
Legal Chinese name of the Company	山東墨龍石油機械股份有限公司			
Abbreviation of the Chinese name	山東墨龍			
Legal English name of the Company	Shandong Molong Petroleum Machinery Co.,Ltd			
Abbreviation of the English name	Shandong Molong			
Legal Representative of the Company	Zhang En Rong			

II. Contact Information

	The Secretary of the Board	Securities Affairs Representative
Name	Zhao Hong Feng	Wang Jian Lei
Office Address	No. 999 WenSheng Street, Shouguang City,Shandong Province	No. 999 WenSheng Street, Shouguang City,Shandong Province
Telephone	0536-5100890	0536-5789083
Facsimile	0536-5100888	0536-5100888
Email Address	zhf@molonggroup.com	dsh@molonggroup.com

III. Other Information

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1. Company Contact Information

The registered address, office address, zip code, Hong Kong's main business address, web address and e-mail address have no changes during the reporting period. For details, please see 2016 annual report.

2. Information Disclosure and Places for Inspection of the Company's Interim Report

The name of the newspaper for information disclosure, website designated by the Chinese Securities Regulatory Commission for publishing this interim report and places for inspection of the Company's interim report have no changes during the reporting period. For details, please see 2016 annual report.

IV. Major Financial Data and Financial Indicators

Whether the Company should make retroactive adjustment to or restate accounting data in prior years

☐ Yes ☒ No

Unit : RMB

	The reporting period	Same period of last year	Increase/decrease (%)
Operating Revenue (RMB)	1,222,828,645.65	771,031,873.22	58.60%
Net profit attributable to equity holders of Listed Company (RMB)	7,020,723.65	(146,276,860.01)	104.80%
Net profit after extraordinary gains or losses attributable to equity holders of Listed Company (RMB)	(166,395,975.54)	(154,281,645.65)	-7.85%
Net cash flows from operating activities (RMB)	41,393,771.56	(109,265,678.50)	137.88%
Basic earning per Share (RMB)	0.0088	(0.1833)	104.80%
Diluted earning per Share (RMB)	0.0088	(0.1833)	104.80%
Net Assets Income Rate (%)	0.39%	-6.20%	6.59%
	At the end of the reporting period	At the end of last year	Increase/decrease (%)
Total Assets (RMB)	5,769,428,635.29	5,772,042,841.06	-0.05%
Net assets attributable to shareholders of Listed Company (RMB)	1,826,768,627.68	1,819,068,091.94	0.42%

V. Differences in accounting data under domestic and overseas accounting standards

1. *Differences between the net profit and net assets disclosed in accordance with international accounting standards and China Accounting Standards for Business Enterprise in the financial report*

☐ Applicable ☒ Not Applicable

During the reporting period, there are no differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report.

2. *Differences between the net profit and net assets disclosed in accordance with overseas accounting standards and China Accounting Standards for Business Enterprise in the financial report*

☐ Applicable ☒ Not Applicable

During the reporting period, there are no differences between the net profit and net assets disclosed in accordance with overseas accounting standards and China accounting standards in the financial report.

VI. Non-recurring profit or loss items and amounts

✓ Applicable ☐ Not Applicable

Unit: RMB

Items	Amount in the report period	Note
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	59,382,050.06	—
Government grant recognised in current profit and loss (excluding those grants that are closely related to the Company's business and that were granted in accordance with the standard amount or volume prescribed by the State)	150,118,600.00	—
Non-operating gain and loss other than the above	(5,486,399.86)	—
Less: Effect on income tax	30,589,263.49	—
Effect on minority shareholders Interest (after tax)	8,287.52	—
Total	173,416,699.19	—

No extraordinary gain or loss items as defined or illustrated in the “Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 — Extraordinary Gains or Losses” were defined by the Company as its recurring gain or loss items during the reporting period.

III. COMPANY BUSINESS PROFILE

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I. The main business during the report period

The Company does not need to comply with the disclosure requirements for special industry.

During the reporting period, the company is mainly engaged in energy equipment industry for product research and development, production and sales. The main products includes tube for oil and gas exploitation, fluid and structural tube, pumping unit, oil well pump, sucker rod, cylinder sleeve for drilling machine, valve parts and components, heavy casting and forging. these products are mainly used on drilling and production of oil, natural gas, coalbed methane and shale gas, machining and city pipe network. the sales of pipe products is the main source of income and profit, exceed 80% of sales revenue. The company's main business structure has not changed significantly during the reporting period.

The Company's business model is making production plan in line with customer requirement. The Company's products especially pipe products are divided into API standard product and non-standard product which is special product with individual needs. Generally, the customer give the product standard, model and quantity according to their own needs, the company's production system organize production and deliver the goods according to customer order.

The Company is belonging to energy equipment industry which includes covering oil, natural gas, shale gas, coal and coal-bed methane. In the long run, the demand for oil and coal reach to peak while the demand of natural gas will have larger growth, so the industry market space is large. The industry is influenced by the cycle of economic development, market consumption demand changes, the price of crude oil cycle and raw material price cycle changes, etc. During the reporting period, the demand of market was good, the orders for oil pipes increased, the Company's operating performance increased, and the operating environment was becoming better.

II. Significant changes in major assets

1. Significant change in major assets

Major assets	Significant change instructions
Equity assets	No Significant change
Fixed assets	No Significant change
Intangible assets	No Significant change
Construction in progress	The construction in progress increased by 52.5% from the beginning of the year, mainly due to the second phase of the new electric arc furnace in Shouguang Baolong

2. Major foreign assets

☐ Applicable ☒ Not Applicable

III. Core Competence Analysis

The Company does not need to comply with the disclosure requirements for special industry.

In the domestic market, the main customers during the reporting period the company oil well pipe products still for the group with four domestic oil companies; Fluid and structure of tube clients included mechanical processing, ship manufacturing, high pressure boiler, gas pipe and tube in various fields, such as market expansion range widening.

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For overseas market, the Company continued to consolidate its developed markets and customers and expand its business development in South America, Middle East and North Africa during the reporting period and develop new customers' relationship by mainly selling oil casing pipe, line pipe products, sucker rods and castings and forgings. In addition, sales of oil well tubes products have soared in Canadian market and castings and forgings have entered the Dutch market for the first time during the reporting period. The continuous development of the new markets and customers has further expanded the overseas market and raised the Company's reputation in the international energy equipment market.

For new products development, the Company successfully developed and sold new products such as large-caliber casting pipe, line pipe, anti-acid line pipe, high compression seal oil casing and tubing during the reporting period. In the meantime, the Company continues to increase application of technical innovation project at the provincial level and protection of intellectual property rights, during the reporting period the Company has four products listed in the Shandong provincial technological innovation project, fifteen applications of new patents, two new authorized patents including one invention patent and one utility model patent.

The Company will continue to carry out the established business strategy, deepen internal excavation, increase internal technical transformation, and realize the further optimization of internal control, so as to continuously improve the Company's core competence.

IV. DISCUSSION AND ANALYSIS OF BUSINESS SITUATION

I. Overview

In the first half of 2017, the demand of market had recovery, especially for oil field which increased the demand for tube products. The price of products increased from the same period of last year and the Company's operating performance improved from the same period of last year. During the reporting period, the Company realized operating revenue of RMB1.222 billion (unaudited), rising by 58.60% year on year; the total amount of unaudited profits was RMB5.9437 million, and showed a turn from loss to profit comparing with loss of RMB161 million for the same period of last year; The unaudited net profit attributable to shareholders of listed companies was RMB7.0207million and showed a turn from loss to profit comparing with loss of RMB146 million for the same period of last year; basic earnings per share was RMB0.0088, rising by 104.80% year on year.

II. Main business analysis

Overview

The same as overview in the discussion and analysis of business situation

✓ Yes ☐ No

See "I. Overview" of the "Discussion and Analysis of Business Situation"

The Change in major financial data by year-on-year

Unit: RMB

	The reporting period	Same period of last year	Increase/decrease (%)	Reasons for the change
Operation revenue	1,222,828,645.65	771,031,873.22	58.60%	Mainly due to getting better for domestic market and the increase in sales force, so operation revenue increased.
Operating costs	1,263,983,647.32	828,762,708.04	52.51%	Mainly due to increased revenue, the costs increased.
Selling expense	28,949,992.97	31,878,686.17	-9.19%	—
Handling expense	40,253,706.72	55,144,229.18	-27.00%	Mainly due to finishing amortization of intangible assets from research and development in prior years, capitalized amount decreased.
Financial expense	62,349,474.80	22,630,322.40	175.51%	Mainly due to the increase in financing cost and not capitalized some of the loan interest in the financial expenses for completed construction in progress.
Income tax expense	589,327.01	7,568,697.95	-92.21%	Mainly due to making up the loss for prior years using the profit of the Company without provision for the income tax expenses.
Net profit from operations	41,393,771.56	(109,265,678.50)	137.88%	Mainly due to funds by government for energy conservation and emission reduction.
The net cash flow from investment activities	18,513,505.35	(86,812,957.03)	121.33%	Mainly due to funds for disposal of the assets for sale during the reporting period.

Unit: RMB

	The reporting period	Same period of last year	Increase/decrease (%)	Reasons for the change
The net cash flow from financial activities	(133,649,795.47)	375,414,870.87	-135.60%	Mainly due to the increase in repayment of borrowings during the reporting period.
Net increase in cash and cash equivalents	(70,856,371.86)	168,280,922.13	-142.11%	Mainly due to the decrease in net cash flow from financial activities during the reporting period.
Interest receivable	4,122,875.82	8,196,910.73	-49.70%	Mainly due to receiving the Interest on the swaps business provided in the last year during the reporting period.
Notes receivable	43,675,777.80	23,403,982.45	86.62%	Mainly due to not payable for received notes during the reporting period.
Advance payment	65,351,168.38	37,042,473.89	76.42%	Mainly due to the increase in advance payment for purchasing the materials for production during the reporting period.
Assets classified as held-for-sale	—	10,765,552.13	-100.00%	Mainly due to the disposal of assets classified as held -for-sale during the reporting period.
Tax payable	20,285,550.53	9,905,721.00	104.79%	Mainly due to the increase in VAT during the reporting period.
Interest payable	2,119,684.80	3,716,115.91	-42.96%	Mainly due to turning into the quarterly payment from the principal interest payment for part of loan during the reporting period.

Significant change in profit structures or profit sources during the reporting period.

☐ Applicable ☒ Not Applicable

There are no significant change in profit structures or profit sources during the reporting period.

Operation revenue

Unit: RMB

	The reporting period		Same period of last year		Increase/ decrease (%)
	Amount	Proportion of operation revenue	Amount	Proportion of operation revenue	
Total operation revenue	1,222,828,645.65	100.00%	771,031,873.22	100.00%	58.60%
By industry					
Special equipment manufacturing industry	1,222,828,645.65	100.00%	771,031,873.22	100.00%	58.60%
By product					
Pipe products	1,156,069,300.42	94.54%	681,668,830.03	88.41%	69.59%
Three kinds of pumping units	14,862,925.06	1.22%	16,890,016.87	2.19%	-12.00%
Petroleum Machinery parts	24,865,181.48	2.03%	8,899,062.96	1.15%	179.41%
Trading	—	0.00%	45,174,407.89	5.86%	-100.00%
Others	27,031,238.69	2.21%	18,399,555.47	2.39%	46.91%
By region					
PRC	1,075,795,340.32	87.98%	627,817,706.11	81.43%	71.35%
Abroad	147,033,305.33	12.02%	143,214,167.11	18.57%	2.67%

Industry, products or regions account for 10% of the company's operation revenue or operating profit.

Unit: RMB

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	The reporting period			Year-on-year increase/ decrease in operation revenue (%)	Year-on-year Increase/ decrease in operating costs (%)	Year-on-year increase/ decrease in gross profit margin (%)
	Operation revenue	Operating costs	Gross profit margin (%)			
By industry						
Special equipment manufacturing industry	1,222,828,645.65	1,263,983,647.32	-3.37%	58.60%	52.51%	4.12%
By product						
Pipe products	1,156,069,300.42	1,201,341,433.20	-3.92%	69.59%	60.37%	5.98%
Three kinds of pumping units	14,862,925.06	13,598,477.16	8.51%	-12.00%	-23.79%	14.15%
Petroleum Machinery parts	24,865,181.48	18,871,338.03	24.11%	179.41%	93.93%	33.45%
Others	27,031,238.69	30,172,398.93	-11.62%	46.91%	260.14%	-66.09%
By region						
PRC	1,075,795,340.32	1,148,141,517.40	-6.72%	71.35%	64.61%	4.37%
Abroad	147,033,305.33	115,842,129.92	21.21%	2.67%	-11.77%	12.89%

On condition that major business data statistical caliber was adjusted in the report period, the latest major business data adjusted based on the statistical caliber at the end of report.

☐ Applicable ☒ Not Applicable

Complying with the disclosure requirements of decoration industry

No

The reason for more than 30% change of the relevant data

✓ Applicable ☐ Not Applicable

The revenues of special equipment manufacturing industry increased by 58.60% from the same period of last year, cost of sales increased by 52.51% from the same period of last year, mainly due to turned better of the current domestic market and increased sales forces of the Company, so the operation revenue and operating cost increased.

The operation revenues of pipe products increased by 69.59% from the same period of last year, operating cost increased by 60.37% from the same period of last year, mainly due to turned better of current domestic and international market and increased demand of product, so the operation revenue and operating cost increased.

The operation revenues of petroleum machinery parts increased by 179.41% from the same period of last year, operating cost increased by 93.93% from the same period of last year, mainly due to turned better of current international markets and increased demand of product, so the operation revenue and operating cost increased.

The operation revenues of other products increased by 46.91% from the same period of last year, and the cost of sales increased by 260.14% from the same period of last year, mainly due to the increase in additional products handled by the Company, so the operation revenue and operating cost increased.

III. Non-main business analysis

✓ Applicable ☐ Not Applicable

Unit: RMB

The reporting period	Amount	Proportion of the total profit	Reasons for formation	Continuity
Non-operating revenue	211,657,656.22	3,561.01%	Mainly due to funds received by the Company for energy conservation and emission reduction.	NO
Non-operating expenditure	7,643,406.02	128.60%	Mainly due to the Company's customer Petroamazonas EP by Ecuador's Treasury for the issuance of bonds by the United States citigroup, turning the Company's accounts receivable to the claim, formation the loss by disposal of claim by the Company in May of this year.	NO

IV. Analysis of assets and liabilities

1. Significant changes in assets structures

Unit: RMB

	At the end of reporting period		At the end of same period of last year		increase/ Decrease %	Reasons for change
	Amount	Proportion of total assets	Amount	Proportion of total assets		
Cash and bank balances	756,592,384.05	13.11%	679,448,755.91	11.77%	1.34%	—
Accounts receivable	265,827,514.25	4.61%	304,148,614.98	5.27%	-0.66%	—
Inventory	764,286,719.34	13.25%	768,734,172.36	13.32%	-0.07%	—
Long-term equity investment	2,620,572.57	0.05%	2,707,572.57	0.05%	0.00%	—
Fixed assets	2,970,897,716.12	51.49%	3,066,573,497.65	53.13%	-1.64%	—
Construction in progress	48,157,787.22	0.83%	31,579,353.99	0.55%	0.28%	The construction in progress increased by 52.5% from the beginning of the year, mainly due to the second phase of the new electric arc furnace in Shouguang Baolong
Short-term borrowings	2,422,708,800.02	41.99%	2,436,842,117.30	42.22%	-0.23%	—
Long-term borrowings	145,000,000.00	2.51%	145,000,000.00	2.51%	0.00%	—

2. Assets and liabilities measured at fair value

☐ Applicable ☒ Not Applicable

3. The limitation of asset rights by the end of the reporting period

Unit: RMB

Item	Book value at the end of the reporting period	Reasons for limitation
Cash and bank balances	318,950,000.00	Due date of Margin exceeding 3 months
Notes receivable	5,900,000.00	Judicial proceedings Frozen
Fixed assets	80,529,883.01	Used for mortgages
Intangible assets	72,797,779.76	Used for mortgages
Total	478,177,662.77	—

V. Investment situation analysis

1. *The overall situation*

☐ Applicable ☒ Not Applicable

2. *Significant equity investment in the reporting period*

☐ Applicable ☒ Not Applicable

3. *Significant non-equity investment in the reporting period*

☐ Applicable ☒ Not Applicable

4. *Financial assets measured at fair value*

☐ Applicable ☒ Not Applicable

5. *Securities investment*

☐ Applicable ☒ Not Applicable

The Company was not involved in any securities investment in the reporting period.

6. *Investment in derivatives*

☐ Applicable ☒ Not Applicable

There was no derivative investment in the reporting period.

7. *Use of proceeds*

☐ Applicable ☒ Not Applicable

The Company did not have use of proceeds in the reporting period.

8. *Material investment of funds not raised from the IPO*

☒ Applicable ☐ Not Applicable

Unit: RMB'0000

Name of projects	Total planned investment	Investment Made during the reporting period	Accumulated actual investment made as of the end of the reporting period	Progression of projects	Revenue From projects	Date of disclosure (if any)	Disclosure Index (if any)
The worker skill expanding and training center	2,600	—	2,137	55.00%	—	—	—
the second phase of the new electric arc furnace	10,197	1,528	1,528	30.00%	—	—	—
Total	12,797	1,528	3,665	—	—	—	—

VI. Significant assets and equity sales

1. *The sale of significant assets*

☐ Applicable ☒ Not Applicable

The Company did not sell significant assets in the reporting period.

2. *The sale of significant stock equity*

☐ Applicable ☒ Not Applicable

VII. Analysis of major subsidiaries and investee

☒ Applicable ☐ Not Applicable

Major subsidiary and investees accounting for over 10% of the net profit of the Company

Unit: RMB (unless otherwise stated)

Name of company	Company Type	Main business	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
MPM Limited	Subsidiary	Trading	USD1,000,000	65,017,636.22	(3,326,455.91)	—	(790,375.97)	(790,375.97)
Shouguang Maolong New Materials Company Limited	Subsidiary	Manufacturing	712,380,000.00	1,620,698,954.92	606,315,532.54	165,579,443.37	(145,269,002.47)	(145,183,842.47)
Shouguang Molong Electro-mechanical Equipment Company Limited	Subsidiary	Manufacturing	USD1,000,000	90,511,494.42	54,255,906.34	16,867,204.60	(692,283.25)	(731,230.13)
Shouguang Baolong Petroleum Material Company Limited	Subsidiary	Manufacturing	150,000,000.00	1,578,280,004.51	(74,662,458.68)	523,513,543.71	(9,909,283.46)	(9,871,570.11)
Weihai Baolong Special Petroleum Materials Co., Ltd	Subsidiary	Manufacturing	26,000,000.00	236,093,672.37	154,276,127.63	187,499,870.54	973,392.31	1,129,301.48
Shouguang Maolong Micro-credit Co., Ltd	Subsidiary	Financial service	150,000,000.00	157,846,362.86	156,624,511.51	3,059,049.65	2,833,800.18	2,116,283.00

Acquisition and disposal of subsidiaries during the reporting period

☐ Applicable ☒ Not Applicable

Particulars of major subsidiaries and investees

The major investee of the Group is Kelamayi Yalong Oil Machinery Co.,LTD. The company was founded on 20 May 1996. The registered capital is RMB6,400,000. The legal person is Luo Jie. The type of company is other LLC. The main products or services are: transportation of general goods; design, manufacturing and sales of machinery; manufacturing of metal structural parts, plastic structural bars, valves, pressure piping accessories, electric transformer, PTD and control cabinet, manufacturing of preparatory high/low transformer; construction of steel structure; hardware; electronic parts; labor protection use; construction materials; sales of chemicals; processing of wooden products; rent of house, vehicle and equipment; loading and offloading; storage; cleaning and planting; technical service of oil fields; maintenance of machinery and electric parts and properties management. The Group's shareholding ratio is 30%. In the reported period, the revenue of the company is RMB1,080,182.92. The operating losses are RMB-594,246.37.

VIII. Structured entities controlled by the Company

☐ Applicable ☒ Not Applicable

IX. Estimate of the operating results from January to September 2017

Operating results forecast for the nine months ended 30 September 2017: The Company had been in a profitable position comparing with the same period of last year.

in a profitable position comparing with the same period of last year

Net profit from January to September 2017 in a profitable position comparing with the same period of last year (RMB'0000)	800 to 1,200
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Net profit attributable to shareholders of the listed company from January to September 2016 (RMB'0000)	(21,897.21)
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Reasons for the change in results	The demand of market has recovery in 2017, the orders of products increase, the price of products has increased comparing with the same period of last year, but the price of raw material still fluctuates greatly, and has certain effect on the Company's operating results.
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X. Risks faced by the Company and contingency measures

- (1) Global economy fluctuation and oil drilling industry investment and demand fluctuation change, will directly lead to the fluctuation of product demand, we will timely adjust the product structure and market layout according to market changes;
- (2) The abnormal change in the price of raw materials fluctuates will directly affect the production cost of the product, which will directly affect the cost of product;
- (3) The abnormal exchange rate of RMB will affect the export business of the product. We will always pay attention to changes of exchange rate and take various measures to avoid the risks arising from exchange rate fluctuations of RMB.

XI. Disclosures in accordance with the Listing Rules of SEHK

1. Directors', Supervisors' and Chief Executive's Interests in securities

As at 30 June 2017, interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Company and to SEHK, were as follows:

Long positions in the shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares (Note 1)	Percentage of total registered share capital (Note 3)
Zhang En Rong	Beneficial	235,617,000	43.49%	29.53%
Zhang Yun San	Beneficial	23,108,000	4.27%	2.90%

Name	Type of interest	Number of H shares	Percentage of H shares (Note 2)	Percentage of total registered share capital (Note 3)
Zhang Yun San	Beneficial	9,060,400	3.54%	1.14%

Notes:

1. Based on the Number of A shares issued by the Company of 541,722,000 shares as at 30 June 2017.
2. Based on the Number of H shares issued by the Company of 256,126,400 shares as at 30 June 2017.
3. Based on the total registered capital of the Company of RMB797,848,400 as at 30 June 2017.

Save as disclosed above, to the best knowledge of the Directors, Supervisors and chief executive, none of the Directors, Supervisors or chief executive had any interests or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the SEHK under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have or deemed to have under the SFO) or will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Company and to the SEHK.

2. Major investments

The Company has no major investment plan during the six months ended 30 June 2017.

3. Major acquisitions, disposals and future investment plans during the six months ended 30 June 2017.

The Group was not involved in any acquisition, disposal and major investment plan during the six months ended 30 June 2017.

4. *Pledge of assets*

According to the current production and operation requirements of our Company, the Company made use of some land use rights and building property mortgage to apply for the loan, and the loan amount was not more than RMB300 million.

5. *Gearing ratio*

The Group's gearing ratio was approximately 67.21% (2016: approximately 67.33%) which is calculated based on the Group's total liabilities of approximately RMB3,877.6889 million (2016: approximately RMB3,886.3756 million) and total assets of approximately RMB5,769.4286 million (2016: approximately RMB5,772.0428 million).

6. *Foreign exchange risks*

Details on foreign exchange risks, please see item X "Risks associated with financial instruments" as set out in this interim report.

7. *Contingent liabilities*

As at 30 June 2017, the Group has no material contingent liabilities.

8. *Segment information*

Details on segment information, please see item XVI "Other significant items" as set out in this interim report.

9. *Future prospects*

The Group believes that, looking ahead to the second half year of 2017, international oil prices are in low price running and supply is greater than demand. In addition to the USA, the rest of the developed economies have performed poorly, with slower growth in developing countries, including China, leading to weaker demand growth. In the long run, although wind power, nuclear power and photovoltaic industries will gradually increase the proportion of overall energy structure, the proportion of crude oil in overall energy structure will not decline rapidly. In addition, the "13th five-year plan" of the Chinese government also clearly asks to expand industrial development space, support the development of high-end equipment industry and new energy industry, and support the transformation and upgrading of traditional industries. Under the influence of national policies, the energy industry would remain steady growth, and the energy equipment industry the Company operated in would be also benefited. In the future, the Company will invest more resources in research and development of technology and production process for high-end product, guarantee product quality, reserve high-end technology and expand a complete production capacity; in order to ensure the domestic market, make efforts to expand the international market.

10. Corporate Governance

The Company is committed to achieve good corporate governance and the corporate governance principle adopted by the Company focuses on a high quality board and improve the internal control, as well as to the related people in the business of transparency and accountability. In the six months ended 30 June 2017, in addition to the following disclosure, the Company has complied with all required standards of Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on SEHK and applicable best practice.

Under the code provision C.2.1 of the CG Code, the Board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually. The Company has made an announcement regarding the revision of the forecast for the annual results of 2016, and the Board of the Company on 30 March 2017 also resolved to approve the correction and restatement for the first quarterly report, interim report and third quarterly report of 2016. Such situations revealed there were material defects in respect of financial reporting. The Company has taken the following improvement measures: (1) The internal control procedures of the Company are further rationalized with strict implementation of the relevant systems. The deployment of employees is improved with proper adjustments to the senior management personnel; (2) Communication through various channels such as regular meetings and occasional meetings is facilitated. The analysis of and inspection on the business and financial information are strengthened; (3) The financial accounting and the level of expertise of financial personnel are improved through various measures: Firstly, excellent financial personnel are recruited to join the Company and work in management positions so as to optimize and consolidate the financial management and system control. Secondly, a new division of labor among the financial personnel takes place according to their professional skills with regular job rotations. The skills of the internal financial personnel are also enhanced thorough various lectures and training sessions.

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11. Director's Securities Transactions

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 of the Listing Rules and requires the directors to follow the Model Code while conducting securities transactions. Such requirements also apply to the Company's management. The Company has made specific enquiries to all directors and has confirmed that all of the directors have complied with the required standard of securities transactions by the directors as set out in the Model Code for the six months ended 30 June 2017. In respect of CSRC's investigation on the Company's director Mr. Zhang En Rong and ex-director Mr. Zhang Yun San regarding their possible breach of securities rules and regulations, the Company has strengthened the supervision and education of the Model Code regarding securities transactions to all of the directors and senior management of the Company.

12. Purchase, sale or redemption of listed securities of the Group

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Group during the six months ended 30 June 2017.

13. CSRC Investigation and Delisting Risk Warning

On 8 February 2017, the Company's substantial shareholders Mr. Zhang En Rong and the then general manager Mr. Zhang Yun Shan received an Investigation Notice (Ref.: Lu Zheng Diao Cha Zi No. [2017] 001 and 002) from China Securities Regulatory Commission (the "CSRC") notifying them that, the CSRC had decided to initiate investigation proceedings against Mr. Zhang En Rong and Mr. Zhang Yun San in accordance to the relevant provisions of the Securities Law of the People's Republic of China, in view that they might have breached securities rules and regulations.

On 21 March 2017, the Company received an Investigation Notice (Ref.: Lu Zheng Diao Cha Zi No. [2017] 003) from CSRC notifying the Company that, the CSRC had decided to initiate investigation proceedings against the Company in accordance to the relevant provisions of the Securities Law of the People's Republic of China, in view that the Company might have breached securities rules and regulations.

On 12 May 2017, the Company and the related parties received the Prior Notice of Administrative Penalty (Ref.: Punishment No. [2017] 51 and 52) delivered by the CSRC, which therein stated the decision of imposing administrative penalty on the Company and the related parties. The Company has published the relevant announcements on 16 May 2017.

On 25 September 2017, the Company and relevant parties and Zhang En Rong and Zhang Yun San received the "Judgement of Administrative Penalty" issued by the CSRC ([2017] Nos. 87 and 88) respectively. If any party concerned applies for reconsideration or initiates administrative proceedings, the Company will fulfill its obligations of information disclosure timely based on the progress.

The domestic stock of the Company trading in Shenzhen Stock Exchange would be given a delisting risk warning under Section 13.2.1 of the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange if the Company is involved in fraudulent issuance of securities or breaches of material information disclosure requirements. The Company's domestic stock trading in Shenzhen Stock Exchange will be suspended from trading after 30 trading days from the initiation of delisting risk warning until the decision made by the Shenzhen Stock Exchange on whether to suspend listing of the domestic stock of the Company within 15 trading days thereafter.

As at the date of this report, according to the context of above "Administrative Judgment of Penalty", the listing status of the shares of the Company will not be suspended or terminated as a result of the penalty judgment.

The Company and all Directors, Supervisors and senior management together with relevant parties concerned express their sincere apologies to all Shareholders and investors in respect of the violation of securities laws and regulations. The Company will further improve its awareness of standard operation, enhance internal governance and the management of information disclosure and fulfill its obligations of timely disclosure of true, accurate and complete information.

V. MATERIAL MATTERS

I. The annual general meeting and extraordinary general meeting in the reporting period

1. General meetings during the reporting period

Meeting	Type	Attendance rate of investors	Date	Disclosure date	Disclosure index
2016 Annual general meeting	Annual general meeting	36.22%	29 June 2017	30 June 2017	—

2. Extraordinary general meeting requested by holders of the Preferred stock with voting rights restored

☐ Applicable ☒ Not Applicable

II. Proposals on profit distribution or conversion of capital reserves into share capital during this reporting period

☐ Applicable ☒ Not Applicable

The Company does not intend to distribute cash dividend and bonus share, and conduct conversion of capital reserves into share capital for the interim period.

III. Undertakings made by parties involved in undertakings including the Company's beneficial controllers, shareholders, related parties, bidders and the Company during the reporting period or prior periods but subsisting to the end of the reporting period.

☐ Applicable ☒ Not Applicable

During the reporting period, there was no undertaking made by parties involved in undertakings including the Company's beneficial controllers, shareholders, related parties, bidders and the Company during the reporting period or prior periods but subsisting to the end of the reporting period.

IV. Appointment, dismissal of accounting firm

The Company's interim report has not been audited.

V. Opinions of the Board and the Supervisory Committee regarding the “modified auditor's report” for the reporting period issued by the accountants

☐ Applicable ☒ Not Applicable

VI. Opinions of the Board regarding the “modified auditor’s report” for the prior year

Shinewing Certified Public Accountants LD., audited the Company’s annual financial statements for the year 2016 and issued an audit report without reservations but with explanatory events.

I. The explanation for audit report without reservations but with explanatory events

The explanatory events in the audit report are as follows:

1. Significant uncertainty related to continuing operations

In 2016, Shandong Molong recorded a loss of RMB650.7057 million in the consolidated financial statements, and as at 31 December 2016, current liabilities is RMB1,583.4865 million higher than current assets. These matters indicate a significant uncertainty that could lead to significant doubts for the Company’s continuing operating capacity.

2. Explanatory events

China Securities Regulatory Commission (hereinafter referred to as the Commission) register and investigate Shandong Molong, the controlling shareholder and general manager of the Company. The investigation was not finished until the date of this report, and the future result is uncertain.

II. Special instructions of the Board regarding matters involved in 2016 audit report without reservations but with explanatory events

1. According to the actual operation, actual situation, and in order to ensure the Company’s continuing operating capacity, the Company took the following measures:

(1) On 30 March 2017, Mr. Zhang En Rong (the controlling shareholder of the Company) hold 235.6170 million A shares (it is 29.53% of the total issued share capital of the Company), signed an irrevocable financial support letter of commitment (hereinafter referred to as the support letter of commitment), and agreed:

- (a) As at 30 March 2017, the Group borrowed RMB150 million from Mr. Zhang En Rong (hereinafter referred to as shareholder borrowing) . Mr. Zhang En Rong promised he would not require the Group to repay the shareholder borrowing until the Group financial position being improved and the Group has enough ability to repay the shareholder borrowing;
- (b) From the date Mr. Zhang En Rong signed the support letter of commitment, if Shandong Molong required, the controlling shareholder shall obtain funds through share pledge or other reasonable methods to meet the working capital operation, loan repayment and renewed borrow money of Shandong Molong;
- (c) Except for (1) (b), Mr. Zhang En Rong does not pledge or sell shares of Shandong Molong to any other party. At the same time, the controlling shareholder provides financial support by its own financial ability or potential financial capability to Shandong Molong, until Shandong Molong has sufficient funds to support its operations and pay its due financial obligations.

(2) The Group is actively seeking new investment and business opportunities to achieve profit and enough working capital.

(3) Right now, the Group is taking various measures to reduce production costs, increase market development, broaden the channels of financing to improve the market position of the Group and diversify its sources of income.

2. The Shandong Molong will actively cooperate with the CSRC's investigation for Shandong Molong, the controlling shareholder and general manager. At the same time, the Company will disclose the information according to the relevant laws and regulations and supervision requirement. Until now, the CSRC has not issued formal conclusion.

VII. Matter related to bankruptcy and reorganisation

☐ Applicable ☒ Not Applicable

There was no matter related to bankruptcy and reorganisation at the end of the reporting period.

VIII. Litigation

☐ Applicable ☒ Not Applicable

The Company was not involved in any material litigation or arbitration during the reporting period.

IX. Media Allegations

The Company was not involved in any media allegations during the reporting period.

X. Punishment and rectification

☒ Applicable ☐ Not Applicable

Name	Type	Reason	Type of investigate punishment	Conclusion (If any)	Disclosure date	Disclosure index
Shandong Molong Petroleum Machinery Co., Ltd.	Others	Suspected of violating securities laws and regulations	Investigation or administrative punishment from CSRC	No formal conclusions have been issued	22 March 2017	http://www.cninfo.com.cn
Zhang En Rong	controlling shareholder	Suspected of violating securities laws and regulations	Investigation or administrative punishment from CSRC	No formal conclusions have been issued	9 February 2017	http://www.cninfo.com.cn
Zhang Yun San	Director	Suspected of violating securities laws and regulations	Investigation or administrative punishment from CSRC	No formal conclusions have been issued	9 February 2017	http://www.cninfo.com.cn

Rectification

☒ Applicable ☐ Not Applicable

So far, the Company, relevant parties, Zhang En Rong and Zhang Yun San received the “Judgement of Administrative Penalty” issued by the CSRC ([2017] Nos. 87 and 88) respectively. According to the “Administrative Judgment of Penalty”, the listing status of the shares of the Company will not be suspended or terminated as a result of the penalty judgment. If any party concerned applies for reconsideration or initiates administrative proceedings, the Company will fulfill its obligations of information disclosure timely based on the progress.

The Company and all Directors, Supervisors and senior management together with relevant parties concerned express their sincere apologies to all Shareholders and investors in respect of the violation of securities laws and regulations. The Company will further improve its awareness of standard operation, enhance internal governance and the management of information disclosure and fulfill the obligations of timely disclosure of true, accurate and complete information.

XI. Credibility of the Company, its controlling shareholders and beneficial controllers

☐ Applicable ☒ Not Applicable

XII. Implementation of the equity incentive plan, employee shareholding plan or other employee incentive measure of the Company

☐ Applicable ☒ Not Applicable

There was no implementation of the equity incentive plan, employee shareholding plan or other employee incentive measure of the Company during the reporting period.

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XIII. Significant related party transactions

1. Related party transactions associated with day-to-day operation

☒ Applicable ☐ Not Applicable

Related party	Related party relationship	Types of the related party transactions	Subject matter of the related party transactions	Pricing basis of the related party transactions	Price of related party transactions	Amount of related party transactions (RMB'0,000)	Percentage as the amount of similar transactions (%)	Amount of transactions approved (RMB'0,000)	Whether exceeding approved cap	Settlement of related party transactions	Market price of available similar transaction	Disclosure date	Disclosure index
Karamay Yalong Petroleum Machinery Co., Ltd	Joint venture	Sales of goods	Oil well pumping sand accessories	Market price	Market price	61.24	4.13%	1,000	No	Cash or acceptance	Yes	—	—
Total				—	—	61.24	—	1,000	—	—	—	—	—
Big sales return details				NIL									
Do the prediction for aggregate amount of daily related party transaction which will happen in the report period by category. Actual performance condition in the report period (if any).				NIL									
Explanation for transaction price has a big difference with market reference price (if any)				Not Applicable									

2. Related party transaction in connection with purchase or sale of assets or equity interest

☐ Applicable ☒ Not Applicable

There was no related party transaction of the Company in connection with purchase or sale of assets or equity interest during the reporting period.

3. Related party transaction connected to joint external investment

☐ Applicable ☒ Not Applicable

There was no related party transaction of the Company connected to joint external investment during the reporting period.

4. Related creditors' rights and debts transactions

☐ Applicable ☒ Not Applicable

There were no non-operating related creditors' rights and debts transactions of the Company during the reporting period.

5. Other significant related party transactions

☒ Applicable ☐ Not Applicable

On 18 January 2017, in the 2nd interim meeting of the 5th Board of the Company, the proposal of using Mr. Zhang En Rong's (the Company's controlling shareholder) funds and related transactions was considered and approved. They decided to use Mr. Zhang En Rong's capital of RMB150 million for the development of the Company. On 30 March 2017, in the 4th meeting of the 5th Board of the Company, the proposal of using Mr. Zhang En Rong's (the Company's controlling shareholder) funds and related transactions was considered and approved. They decided to use Mr. Zhang En Rong's capital of RMB60 million for the development of the Company. For details, please refer to the announcement of the Company disclosed at Juchao Website (<http://www.cninfo.com.cn>).

Relevant information regarding the tentative announcement disclosure website for significant related party transactions

Name of tentative announcement	Disclosure date of the tentative announcement	Name of the tentative announcement disclosure website
Announcement in respect of using capital from controlling shareholder and related party transaction	20 January 2017	Juchao Website (http://www.cninfo.com.cn)
Announcement in respect of using capital from controlling shareholder and related party transaction	6 April 2017	Juchao Website (http://www.cninfo.com.cn)

XIV. Material contracts and implementation

1. Custody, contracting and leasing

(1) Custody

☐ Applicable ☒ Not Applicable

There was no custody during the reporting period.

(2) Contracting

☐ Applicable ☒ Not Applicable

There was no contracting during the reporting period.

(3) Leasing

☐ Applicable ☒ Not Applicable

There was no leasing during the reporting period.

2. Significant guarantees

☐ Applicable ☒ Not Applicable

There was no guarantee during the reporting period.

3. Other material contracts

☐ Applicable ☒ Not Applicable

The Company did not have any other material contract during the reporting period.

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XV. Fulfilment of social responsibility

1. Fulfilment of social responsibility regarding targeted poverty alleviation

The Company temporarily did not carry out the works of targeted poverty alleviation during the interim reporting period, and did not has the subsequent plan of targeted poverty alleviation for the time being.

2. Major environmental protection matters

The listed company and its subsidiaries are not on the list of critical pollutant dischargers published by the environmental protection authorities.

XVI. Other matters of significance

☐ Applicable ☒ Not Applicable

There is no other matters of significance during the reporting period.

XVII. Matters of significant of subsidiaries of the Company

☐ Applicable ☒ Not Applicable

VI. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. Changes in share capital

1. Changes in share capital

Unit: share

	Prior to the change		Increase/decrease as a result of the change (+, -)					After the change	
	Number of shares	Percentage	New issue	Bonus issue	Transfer from capital reserve	Others	Subtotal	Number of shares	Percentage
I. Restricted shares	248,330,750	31.13%	—	—	—	(18,706,000)	(18,706,000)	229,624,750	28.78%
1. Shares held by the State	0	0.00%	—	—	—	—	—	0	0.00%
2. Shares held by state-owned legal persons	0	0.00%	—	—	—	—	—	0	0.00%
3. Shares held by other domestic investors	248,330,750	31.13%	—	—	—	(18,706,000)	(18,706,000)	229,624,750	28.78%
Of which:									
Shares held by domestic legal persons	0	0.00%	—	—	—	—	—	0	0.00%
Shares held by domestic natural persons	248,330,750	31.13%	—	—	—	(18,706,000)	(18,706,000)	229,624,750	28.78%
4. Shares held by overseas investors	0	0.00%	—	—	—	—	—	0	0.00%
Of which:									
Shares held by overseas legal persons	0	0.00%	—	—	—	—	—	0	0.00%
Shares held by overseas natural persons	0	0.00%	—	—	—	—	—	0	0.00%
II. Non-restricted shares	549,517,650	68.87%	—	—	—	18,706,000	18,706,000	568,223,650	71.22%
1. RMB ordinary shares	293,391,250	36.77%	—	—	—	18,706,000	18,706,000	312,097,250	39.12%
2. Domestic listed foreign share	0	0.00%	—	—	—	—	—	0	0.00%
3. Overseas listed foreign shares	256,126,400	32.10%	—	—	—	—	—	256,126,400	32.10%
4. Others	0	0.00%	—	—	—	—	—	0	0.00%
III. Total number of shares	797,848,400	100.00%	—	—	—	—	—	797,848,400	100.00%

Reason for such change

☐ Applicable ☒ Not Applicable

Approval of changes in shareholding

☐ Applicable ☒ Not Applicable

Transfer of shares arising from changes in shareholding

☐ Applicable ☒ Not Applicable

The effects of changes in shareholding on financial indicators such as basic earnings per share, diluted earnings per share and net assets per share attributable to shareholders of ordinary shares of the Company for the latest year and the latest period

☐ Applicable ☒ Not Applicable

Other information considered necessary by the Company or required by the securities regulatory authorities to be disclosed

☐ Applicable ☒ Not Applicable

2. *Changes in restricted shares*

☐ Applicable ☒ Not Applicable

3. *Issuance and listing of securities*

☐ Applicable ☒ Not Applicable

II. Total number of shareholders and shareholdings

Total number of shareholders of ordinary shares as at the end of the reporting period 50,809

Total number of shareholders of Preferred stock with restored voting right as at the end of the reporting period (if any) 0

Shareholdings of shareholders of ordinary shares interested in more than 5% of the shares of the Company or top ten shareholders of ordinary shares

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Name of Shareholders	Nature of Shareholders	Percentage of shareholding*	Number of ordinary shares held at the end of the reporting period	Changes (increase or decrease) during the reporting period	Number of restricted ordinary shares held	Number of non-restricted ordinary shares held	Share pledged or locked-up	Status of shares	Number
HKSCC Nominees Limited	Overseas legal person	32.06%	255,804,990	0	0	255,804,990	—	—	—
Zhang En Rong	Domestic natural person	29.53%	235,617,000	(30,000,000)	199,212,750	36,404,250	—	—	—
Zhang Yun San	Domestic natural person	4.03%	32,168,400	0	17,331,000	14,837,400	—	—	—
Lin Fulong	Domestic natural person	3.28%	26,162,000	0	13,081,000	13,081,000	—	—	—
Central Huijin Asset Management Co., Ltd	State-owned legal person	1.70%	13,536,100	0	0	13,536,100	—	—	—
Beijing Hao Shi Jia gas equipment co., LTD	Domestic non-state legal person	0.42%	3,390,171	0	0	3,390,171	—	—	—
Yu Zhaogang	Domestic natural person	0.29%	2,286,000	0	0	2,286,000	—	—	—
Xiao Lihai	Domestic natural person	0.28%	2,238,838	0	0	2,238,838	—	—	—
Xie Shaozhe	Domestic natural person	0.18%	1,428,714	0	0	1,428,714	—	—	—
Jin Tao	Domestic natural person	0.17%	1,350,000	0	0	1,350,000	—	—	—

Note:

* Based on total 797,848,400 ordinary shares of the Company as at the end of the reporting period.

Remarks on strategic investor or ordinary legal person becoming top 10 shareholders after placing of new shares	Not applicable
Connected relationships or concert-party relationships among the above shareholders	Zhang En Rong is the father of Zhang Yun San. According to the best information of the Company, no other shareholders have connected relationships or are acting in concert.

Shareholdings of the top ten shareholders of non-restricted shares

Name of shareholders	Number of non-restricted shares held at the end of the reporting period	Type of share	Number of shares
HKSCC Nominees Limited	255,804,990	Overseas listed foreign shares	255,804,990
Zhang En Rong	36,404,250	RMB ordinary shares	36,404,250
Zhan Yunsan	14,837,400	RMB ordinary shares	5,777,000
		Overseas listed foreign shares	9,060,400
Central Huijin Asset Management Co., Ltd	13,536,100	RMB ordinary shares	13,536,100
Lin Fulong	13,081,000	RMB ordinary shares	13,081,000
Beijing Hao Shi Jia gas equipment co., LTD	3,390,171	RMB ordinary shares	3,390,171
Yu Zhaogang	2,286,000	RMB ordinary shares	2,286,000
Xiao Lihai	2,238,838	RMB ordinary shares	2,238,838
Xie Shaozhe	1,428,714	RMB ordinary shares	1,428,714
Jin Tao	1,350,000	RMB ordinary shares	1,350,000

Connected relationships or concert-party relationships between the top ten shareholders of non-restricted shares and between the top ten shareholders of non-restricted shares and top 10 shareholders of ordinary shares

Zhang En Rong is the father of Zhang Yun San. According to the best information of the Company, no other shareholders have connected relationships or are acting in concert.

Remarks on the top 10 shareholders involved in securities margin trading

Not applicable

Whether an agreed repurchase transaction was entered into during the reporting period by the top 10 shareholders of ordinary shares and top 10 shareholders of non-restricted shares of the Company

☐ Yes ☒ No

The top 10 shareholders of ordinary shares and top 10 shareholders of non-restricted shares of the Company did not enter any agreed repurchase transaction during the reporting period.

III. Change of controlling shareholders or beneficial controllers

There was no change of controlling shareholders of the Company during the reporting period. There was no change of beneficial controllers of the Company during the reporting period.

VII. PREFERRED SHARES

The Company has no preferred share during the reporting period.

VIII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. Changes in Shareholdings of the Directors, Supervisors and Senior Management

✓ Applicable ☐ Not Applicable

Name	Position	Status	Shares held				Amount of	Amount of	Amount of
			at the beginning of the reporting period (share)	Shares increased this reporting period (share)	Shares decreased this reporting period (share)	Shares held at the end of the reporting period (share)	restricted shares at beginning of this reporting period (share)	restricted shares during this reporting period (share)	restricted shares at the end of this reporting period (share)
Zhang En Rong	Chairman of the Company	Current	265,617,000	0	30,000,000	235,617,000	0	0	0
Total			265,617,000	0	30,000,000	235,617,000	0	0	0

II. Change of Directors, Supervisors and Senior Management

✓ Applicable ☐ Not Applicable

Name	Position	Type	Date	Explanation
Yang Jin	Financial Director	Dismissed	24 April 2017	Job change
Zhang Shoukui	Vice General Manager	Dismissed	24 April 2017	Job change
Liu Zengxiang	Vice General Manager	Dismissed	24 April 2017	Job change
Li Peng	Vice General Manager	Dismissed	24 April 2017	Job change
Yang Jin	Vice General Manager	Appointment	24 April 2017	Job change
Zhang Yuzhi	Vice General Manager	Appointment	24 April 2017	Job change
Li Wenqing	Vice General Manager	Appointment	24 April 2017	New recruits, appointment.
Guo Xingping	Vice General Manager, Financial Director	Appointment	24 April 2017	New recruits, appointment.
Ci Xiaolei	Vice General Manager	Appointment	24 April 2017	New recruits, appointment.
Li Wenqing	Vice General Manager	Dismissed	11 July 2017	Resign voluntarily, no longer take any position of the Company
Guo Xingping	Vice General Manager, Financial Director	Dismissed	11 July 2017	Resign voluntarily, no longer take any position of the Company
Liu Min	Vice General Manager, Financial Director	Appointment	23 August 2017	New recruits, appointment.
Ci Xiaolei	Vice General Manager	Dismissed	23 August 2017	Resign voluntarily, no longer take any position of the Company
Zhang Yun San	Executive Director, Vice Chairman, General Manager	Dismissed	14 August 2017	Resign voluntarily, no longer take any position of the Company

IX. CORPORATE BONDS

There is no corporate bonds offered to the public and listed on stock exchanges which do not become due as at the date of approval of interim report or overdue but not fully settled.

X. FINANCIAL REPORTS

I. Auditing Report

The interim financial report is unaudited.

II. Financial Statements

Unit of the notes to the financial statements is RMB (unless otherwise stated)

1. Consolidated Balance Sheets

Organization unit: Shandong Molong Petroleum Machinery Company Limited

30 June 2017

Unit: RMB

Items	Notes	Closing balance	Opening balance
Current assets:			
Cash and bank balances	VII.1	756,592,384.05	679,448,755.91
Deposit reservation for balance		—	—
Lendings to Banks and Other Financial Institutions		—	—
Financial assets at fair value through profit or loss		—	—
Derivative financial assets	VII.2	—	—
Bills receivable	VII.3	43,675,777.80	23,403,982.45
Accounts receivable	VII.4	265,827,514.25	304,148,614.98
Loans and Advances	VII.5	126,163,661.71	142,887,708.94
Prepayments	VII.6	65,351,168.38	37,042,473.89
Premium receivable		—	—
Reinsurance Accounts Receivable		—	—
Reserves for reinsurance contract receivable		—	—
Interests receivable	VII.7	4,122,875.82	8,196,910.73
Dividend receivables		—	—
Other receivable	VII.8	56,516,620.76	55,703,355.24
Financial assets purchased under resales agreement		—	—
Inventory	VII.9	764,286,719.34	768,734,172.36
Assets classified as held for sale		—	10,765,552.13
Non-current assets due within one year		—	—
Other current assets	VII.10	130,710,600.18	112,973,607.82
Total Current assets		2,213,247,322.29	2,143,305,134.45

Unit: RMB

Items	Notes	Closing balance	Opening balance
Non-current assets:			
Loans and advances from other parties		—	—
Financial asset available for sale	VII.11	50,000.00	50,000.00
Held-to-maturity investments		—	—
Long term receivables		—	—
Long-term equity investment	VII.12	2,620,572.57	2,707,572.57
Investment properties		—	—
Fixed assets	VII.13	2,970,897,716.12	3,066,573,497.65
Construction in progress	VII.14	48,157,787.22	31,579,353.99
Construction materials		—	—
Disposal of fixed assets		—	—
Capitalized Biological assets		—	—
Oil and nature gas		—	—
Intangible assets	VII.15	437,103,482.02	449,212,108.76
Development expenditure	VII.16	19,838,831.43	—
Goodwill	VII.17	26,683,383.21	26,683,383.21
Long-term deferred expenses		—	—
Deferred income tax assets	VII.18	3,465,431.48	3,465,431.48
Other non-current assets	VII.19	47,364,108.95	48,466,358.95
Total non-current assets		3,556,181,313.00	3,628,737,706.61
Total assets		5,769,428,635.29	5,772,042,841.06

Unit: RMB

Items	Notes	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings	VII.20	2,422,708,800.02	2,436,842,117.30
Borrowing from Central Bank		—	—
Receipt of deposits and deposits from other banks		—	—
Borrowings from banks and other financial institutions		—	—
Financial liabilities at fair value through profit or loss		—	—
Derivative financial liabilities	VII.21	—	—
Bills payable	VII.22	202,690,000.00	241,427,907.86
Trade payable	VII.23	919,572,340.25	901,601,597.75
Receipts in advance	VII.24	82,790,084.84	73,674,754.30
Financial assets sold for repurchase		—	—
Bank charges and commission payable		—	—
Salaries payable	VII.25	35,559,607.77	30,194,232.47
Taxes payable	VII.26	20,285,550.53	9,905,721.00
Interest payable	VII.27	2,119,684.80	3,716,115.91
Dividends payable		—	—
Other payable	VII.28	32,531,493.81	29,429,211.29
Dividend payable for reinsurance		—	—
Insurance contract reserve		—	—
Receivings from vicariously traded securities		—	—
Receivings from vicariously sold securities		—	—
Liabilities classified as held for sale		—	—
Non-current liabilities due within one year		—	—
Other current liabilities		—	—
Total current liabilities		3,718,257,562.02	3,726,791,657.88

Unit: RMB

Items	Notes	Closing balance	Opening balance
Non-current liabilities:			
Long-term borrowings	VII.29	145,000,000.00	145,000,000.00
Bonds payable		—	—
Including: Preferred stock		—	—
Perpetual Capital Securities		—	—
Long-term payables		—	—
Long-term salaries payable		—	—
Specific payable		—	—
Provision		—	—
Deferred income	VII.30	6,954,855.00	6,954,855.00
Deferred income tax liabilities	VII.18	7,476,501.60	7,629,102.79
Other non-current liabilities		—	—
Total non-current liabilities		159,431,356.60	159,583,957.79
Total liabilities		3,877,688,918.62	3,886,375,615.67
Shareholders' equity:			
Share capital	VII.31	797,848,400.00	797,848,400.00
Other equity instrument		—	—
Including: Preferred stock		—	—
Perpetual Capital Securities		—	—
Capital reserve	VII.32	849,718,158.42	849,718,158.42
Less: Treasury stock		—	—
Other comprehensive income	VII.33	(2,412,621.75)	(3,092,433.84)
Special reserve	VII.34	—	—
Surplus reserve	VII.35	176,686,903.51	176,686,903.51
General risk reserve	VII.36	11,236.91	11,236.91
Undistributed profits	VII.37	4,916,550.59	(2,104,173.06)
Total equity attributable to shareholders of Company		1,826,768,627.68	1,819,068,091.94
Minority interest		64,971,088.99	66,599,133.45
Total shareholders' equity		1,891,739,716.67	1,885,667,225.39
Total liabilities and shareholders' equity		5,769,428,635.29	5,772,042,841.06

Legal Representative:
Zhang En RongAccountant-in-charge:
Liu MinPartner-in-charge:
Ding Zhi Shui

2. Parent Company's Balance Sheet

Unit: RMB

Items	Closing balance	Opening balance
Current assets:		
Cash and bank balances	720,603,668.98	599,097,430.73
Financial assets at fair value through profit or loss	—	—
Derivative financial assets	—	—
Bills receivable	35,565,037.80	20,668,982.45
Accounts receivable	507,630,953.57	576,856,586.89
Prepayments	708,707,961.84	428,363,237.40
Interest receivable	1,910,039.04	5,984,073.95
Dividend receivables	—	—
Other receivables	331,425,023.15	338,646,279.63
Inventories	537,499,089.09	600,619,996.95
Assets classified as held for sale	—	10,765,552.13
Non-current assets due within one year	—	—
Other current assets	—	2,453,338.22
Total current assets	2,843,341,773.47	2,583,455,478.35
Non-current assets:		
Financial assets available for sale	20,000.00	20,000.00
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	1,144,069,921.73	1,144,069,921.73
Investment properties	—	—
Fixed assets	1,254,214,519.34	1,311,349,758.67
Construction in progress	9,912,193.26	9,148,911.28
Construction materials	—	—
Disposal of fixed assets	—	—
Capitalized Biological assets	—	—
Oil and nature gas	—	—
Intangible assets	142,458,944.85	150,781,549.00
Development expenditure	19,838,831.43	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	—	—
Other non-current assets	—	—
Total non-current assets	2,570,514,410.61	2,615,370,140.68
Total assets	5,413,856,184.08	5,198,825,619.03

Unit: RMB

Items	Closing balance	Opening balance
Current liabilities:		
Short-term borrowing	1,646,364,800.02	1,572,921,489.30
Financial assets at fair value through profit or loss	—	—
Derivative financial liabilities	—	—
Bills payable	801,500,000.00	925,978,535.86
Accounts payable	364,223,044.62	354,013,293.48
Receipts in advance	110,082,418.97	46,083,166.73
Salaries payable	25,188,051.78	21,715,692.23
Taxes payable	14,464,412.31	3,645,957.07
Interest payable	1,663,322.07	3,375,485.69
Dividends payable	—	—
Other payables	140,514,109.31	121,252,406.87
Liabilities classified as held for sale	—	—
Non-current liabilities due within one year	—	—
Other current liabilities	—	—
Total current liabilities	3,104,000,159.08	3,048,986,027.23
Non-current liabilities:		
Long-term borrowings	145,000,000.00	145,000,000.00
Bonds payable	—	—
Including: Preferred stock	—	—
Perpetual Capital securities	—	—
Long-term payable	—	—
Long-term salaries payable	—	—
Specific payable	—	—
Provision	—	—
Deferred income	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	145,000,000.00	145,000,000.00
Total liabilities	3,249,000,159.08	3,193,986,027.23
Shareholders' equity:		

Unit: RMB

Items	Closing balance	Opening balance
Share capital	797,848,400.00	797,848,400.00
Other equity instruments	—	—
Including: Preferred stock	—	—
Perpetual capital securities	—	—
Capital reserve	849,699,490.92	849,699,490.92
Less: Treasury stock	—	—
Other comprehensive income	—	—
Special reserve	—	—
Surplus reserve	176,686,903.51	176,686,903.51
Undistributed profits	340,621,230.57	180,604,797.37
Total shareholders' equity	2,164,856,025.00	2,004,839,591.80
Total liabilities and shareholders' equity	5,413,856,184.08	5,198,825,619.03

3. Consolidated Income Statements

Unit: RMB

Items	Notes	Amounts for the reporting period	Amounts for the prior period
I. Total revenue from operations		1,222,828,645.65	771,031,873.22
Including: Operating revenue	VII.38	1,222,828,645.65	771,031,873.22
Interest income		—	—
Earned insurance premium		—	—
Brokerage and commission income		—	—
II. Total costs of operations		1,420,899,148.93	942,270,122.30
Including: Operating cost	VII.38	1,263,983,647.32	828,762,708.04
Interest expenses		—	—
Brokerage and commission expenses		—	—
Surrenders		—	—
Net amount of compensation paid		—	—
Net amount of reserves for reinsurance contract		—	—
Insurance dividend payments		—	—
Reinsurance premium		—	—
Tax and surcharges	VII.39	12,341,043.15	3,829,733.61
Selling expenses	VII.40	28,949,992.97	31,878,686.17
Administrative expenses	VII.41	40,253,706.72	55,144,229.18
Finance costs	VII.42	62,349,474.80	22,630,322.40
Asset impairment losses	VII.43	13,021,283.97	24,442.90
Add: Gains from changes in fair value		—	—
Investment income		—	—
Including: Gains from investment in associates and joint ventures		—	—
Exchange gain		—	—
Other gains		—	—

Unit: RMB

Items	Notes	Amounts for the reporting period	Amounts for the prior period
III. Operating profit		(198,070,503.28)	(171,238,249.08)
Add: Non-operating income	VII.44	211,657,656.22	10,391,479.11
Including: Gain from disposal of non-current assets		59,465,670.89	—
Less: Non-operating expenses	VII.45	7,643,406.02	87,883.59
Including: Loss from disposal of non-current assets		83,620.83	63,847.59
IV. Total profit		5,943,746.92	(160,934,653.56)
Less: Income tax expenses	VII.46	589,327.01	7,568,697.95
V. Net profit		5,354,419.91	(168,503,351.51)
Net profit attributable to the owners of the Company		7,020,723.65	(146,276,860.01)
Net loss attributable to non-controlling interests		(1,666,303.74)	(22,226,491.50)
VI. Other comprehensive income, net of tax		718,071.37	(610,579.43)
Other comprehensive income net of tax attributable to the owners of the Company		679,812.09	(578,693.81)
(i) Items that will not be subsequently reclassified to profit or loss		—	—
1. Net changes in net debt or equity on defined benefit plan		—	—
2. Under the equity method cannot be reclassified into the profit or loss of the invested entity cannot enjoy the share of other		—	—
(ii) Items that maybe reclassified subsequently		679,812.09	(578,693.81)
1. Under the equity method after the invested entity will be classified into the share of profits and losses of other comprehensive income		—	—
2. Net gain or loss from changes in fair value on available-for-sale financial assets		—	—
3. Net gain or loss from changes in reclassification of held-to-maturity financial assets to available-for-sale financial assets		—	—
4. Net gain and loss arising on cash flow hedging		—	—
5. Exchange differences arising on translation		679,812.09	(578,693.81)
6. Others		—	—
Other comprehensive income attributable to the non-controlling interests (net of tax)		38,259.28	(31,885.62)
VII. Total comprehensive income		6,072,491.28	(169,113,930.94)
Total comprehensive income attributable to shareholders of Company		7,700,535.74	(146,855,553.82)
Total comprehensive income attributable to minority interests		(1,628,044.46)	(22,258,377.12)
VIII. Earnings per share			
(i) Basic earnings per share		0.0088	(0.1833)
(ii) Diluted earnings per share		0.0088	(0.1833)

For the business combination under common control effected in the current period, the net profit recognized by the merged party before the combination was RMB0, and the net profit recognized by the merged party in the previous period was RMB0.

Legal Representative:
Zhang En Rong

Accountant-in-charge:
Liu Min

Partner-in-charge:
Ding Zhi Shui

4. Parent Company's Income Statements

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
I. Operating revenue	1,087,759,522.64	645,579,314.57
Less: Operating cost	1,018,429,302.20	649,241,411.89
Business tax and surcharges	7,208,091.21	3,258,424.88
Selling expenses	26,200,302.10	31,219,445.74
Administrative expenses	26,965,283.64	36,681,235.28
Finance costs	39,738,312.56	10,139,244.15
Assets impairment losses	12,955,015.45	24,442.90
Add: Gains from changes in fair value	—	—
Investment income	—	—
Including: Gains from investment in associates and joint ventures	—	—
Other income	—	—
II. Operating profit	(43,736,784.52)	(84,984,890.27)
Add: Non-operating income	211,311,900.57	2,936,612.64
Including: Gain from disposal of non-current assets	59,321,431.24	—
Less: Non-operating loss	7,558,682.85	26,539.92
Including: Loss from disposal of non-current assets	59,931.12	5,403.92
III. Total profit	160,016,433.20	(82,074,817.55)
Less: Income tax expenses	—	4,311,821.56
IV. Net profit	160,016,433.20	(86,386,639.11)
V. Other comprehensive income net of tax	—	—
(i) Items that will not be subsequently reclassified into profit or loss	—	—
1. Net changes in net debt or equity on remeasured defined benefit plan	—	—
2. Share of investees' other comprehensive income that cannot be reclassified into profit or loss under the equity method	—	—
(ii) Items that may be reclassified subsequently into profit or loss	—	—
1. Share of investees' other comprehensive income that will be reclassified into profit or loss under the equity method	—	—
2. Net gain or loss from changes in fair value on available-for-sale financial assets	—	—
3. Net gain or loss on reclassification of held-to-maturity financial assets to available-for-sale financial assets	—	—
4. Net gain and loss arising on cash flow hedging	—	—
5. Exchange differences arising on translation	—	—
6. Others	—	—
VI. Total comprehensive income	160,016,433.20	(86,386,639.11)
VII. Earnings per share:		
(i) Basic earnings per share	—	—
(ii) Diluted earnings per share	—	—

5. Consolidated Statements of Cash Flow

Unit: RMB

Items	Notes	Amounts for the reporting period	Amounts for the prior period
I. Cash flow from operating activities:			
Cash received from sales of goods and rendering of services		1,321,013,372.12	757,446,937.85
Net increase in customer bank deposits and due to banks and other financial institutions		—	—
Net increase in borrowings from central bank		—	—
Net increase in borrowings from other financial institutions		—	—
Premiums received from original insurance contracts		—	—
Net cash received from reinsurance business		—	—
Net increase of policy holder deposits and investment funds		—	—
Net increase in disposal of financial assets at fair value through profit or loss		—	—
Interest, handling charges and commission received		3,477,891.54	6,103,658.98
Net increase in placements from banks and other financial institutions		—	—
Net increase in repurchase business capital		—	—
Receipts of tax refunds		3,227,383.92	5,186,230.54
Other cash receipts relating to operating activities	VII.48(1)	157,673,288.29	55,582,542.68
SUB-TOTAL OF CASH INFLOW FROM OPERATING ACTIVITIES		1,485,391,935.87	824,319,370.05
Cash payments for goods purchased and services received		1,202,910,393.17	676,534,467.87
Net increase in loans and advances to customers		(16,657,778.71)	29,930,491.19
Net increase in deposits with central bank and other financial institutions		—	—
Original insurance contract claims paid		—	—
Interest, brokerage charges and commission paid		—	—
Policy holder dividend paid		—	—
Cash paid to and on behalf of employees		63,379,231.24	52,695,916.45
Payments of all types of taxes		13,545,096.45	14,957,386.17
Other cash payments relating to operating activities	VII.48(2)	180,821,222.16	159,466,786.87
SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES		1,443,998,164.31	933,585,048.55
NET CASH FLOWS FROM OPERATING ACTIVITIES	VII.49(1)	41,393,771.56	(109,265,678.50)

Unit: RMB

Items	Notes	Amounts for the reporting period	Amounts for the prior period
II. CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from disposals of investments		—	—
Cash receipts from acquisition of investments		—	—
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		70,000,000.00	—
Net cash receipts from disposals of subsidiaries and other business units		—	—
Other cash receipts relating to investing activities		—	—
SUB-TOTAL OF CASH INFLOWS FROM INVESTING ACTIVITIES		70,000,000.00	—
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		51,486,494.65	86,812,957.03
Cash payments to acquire investments		—	—
Net increase in pledged loans		—	—
Net cash payments for acquisition of subsidiaries and other business units		—	—
Other cash payments relating to investment activities		—	—
SUB-TOTAL OF CASH OUTFLOWS FROM INVESTING ACTIVITIES		51,486,494.65	86,812,957.03
NET CASH FLOWS FROM INVESTING ACTIVITIES		18,513,505.35	(86,812,957.03)
III. CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash receipts from investors		—	—
Including: Cash receipts from the minority interests in subsidiaries		—	—
Cash receipts from borrowings		2,067,226,447.93	1,456,191,274.96
Cash receipts from issuance of bonds		—	—
Other cash receipts relating to financing activities	VII.48(3)	—	781,431,313.00
SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES		2,067,226,447.93	2,237,622,587.96
Cash repayments of amounts borrowed		2,139,733,765.21	1,560,191,050.69
Cash payments for distribution of dividends or profits or cash payments for interest expenses		38,742,478.19	55,047,351.40
Including: Cash payment for distribution of dividends or profits to non-controlling interest		—	—
Other cash payments relating to financing activities	VII.48(4)	22,400,000.00	246,969,315.00
SUB-TOTAL OF CASH OUTFLOWS		2,200,876,243.40	1,862,207,717.09
NET CASH FLOWS FROM FINANCING ACTIVITIES		(133,649,795.47)	375,414,870.87
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		2,886,146.70	(11,055,313.21)
V. NET INCREASE IN CASH AND CASH EQUIVALENTS		(70,856,371.86)	168,280,922.13
Add: Opening balance of cash and cash equivalents		508,498,755.91	218,309,025.51
VI. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	VII.49(2)	437,642,384.05	386,589,947.64

6. Parent Company's Statements of Cash Flow

Unit: RMB

Items	Note	Amounts for the reporting period	Amounts for the prior period
I. CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from the sale of goods or rendering of services		1,284,257,288.76	625,106,733.07
Receipts of tax refunds		3,227,383.92	5,186,221.99
Other cash receipts relating to operating activities		156,762,157.39	31,944,685.58
SUB-TOTAL OF CASH INFLOWS FROM OPERATING		1,444,246,830.07	662,237,640.64
Cash payments for goods purchased and services received		1,110,516,660.39	341,943,329.02
Cash paid to and on behalf of employees		41,103,324.80	36,646,120.11
Payments of all types of taxes		7,610,543.34	9,850,299.58
Other cash payments relating to operating activities		173,454,263.41	148,604,200.00
SUB-TOTAL OF CASH OUTFLOWS FROM ACTIVITIES		1,332,684,791.94	537,043,948.71
NET CASH FLOWS FROM OPERATING ACTIVITIES		111,562,038.13	125,193,691.93
II. CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash receipts from disposals of investments		—	—
Cash receipts from acquisition of investments		—	—
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		70,000,000.00	—
Net cash receipts from disposals of subsidiaries and other business units		—	—
Other cash receipts relating to investing activities		—	—
SUB-TOTAL OF CASH INFLOWS FROM INVESTING ACTIVITIES		70,000,000.00	—
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		11,502,764.65	5,624,857.65
Cash payments to acquire investments		—	300,000,000.00
Net cash payments for acquisition of subsidiaries and other business units		—	—
Other cash payments relating to investment activities		—	—
SUB-TOTAL OF CASH OUTFLOWS FROM INVESTING ACTIVITIES		11,502,764.65	305,624,857.65
NET CASH FLOWS FROM INVESTING ACTIVITIES		58,497,235.35	(305,624,857.65)
III. CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash receipts from investors		—	—
Cash receipts from borrowings		1,451,999,200.00	1,389,879,274.96
Cash receipts from issuance of bonds		—	—
Other cash receipts relating to financing activities		476,383,247.93	693,033,313.00
SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES		1,928,382,447.93	2,082,912,587.96
Cash repayments of amounts borrowed		1,438,555,889.28	1,493,879,050.69
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		36,095,163.84	54,397,482.73
Other cash payments relating to financing activities		654,833,875.93	224,850,000.00
SUB-TOTAL OF CASH OUTFLOWS		2,129,484,929.05	1,773,126,533.42
NET CASH FLOWS FROM FINANCING ACTIVITIES		(201,102,481.12)	309,786,054.54
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		4,549,445.89	(11,025,373.26)
V. NET INCREASE IN CASH AND CASH EQUIVALENTS		(26,493,761.75)	118,329,515.56
Add: Opening balance of cash and cash equivalents		428,147,430.73	195,410,068.33
VI. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS		401,653,668.98	313,739,583.89

7. Consolidated Statement of Changes in Shareholder's Equity

Amounts for the reporting period

Unit: RMB

		The Reporting Period												
		Equity attributable to shareholders of the Parent Company												
		Other equity instruments												
				Perpetual Capital Securities			Less: Treasury Stock	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Minority interests	Total equity
Items		Share capital	Preferred Stock		Others	Capital reserve								
I.	Balance at the end of the previous period	797,848,400.00	—	—	—	849,718,158.42	—	(3,092,433.84)	—	176,686,903.51	11,236.91	(2,104,173.06)	66,599,133.45	1,885,667,225.39
	Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
	Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—	—	—	—
	Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—
	Others	—	—	—	—	—	—	—	—	—	—	—	—	—
II.	Balance at the beginning of the current period	797,848,400.00	—	—	—	849,718,158.42	—	(3,092,433.84)	—	176,686,903.51	11,236.91	(2,104,173.06)	66,599,133.45	1,885,667,225.39
III.	Changes in the current period	—	—	—	—	—	—	679,812.09	—	—	—	7,020,723.65	(1,628,044.46)	6,072,491.28
	(i) Total comprehensive income	—	—	—	—	—	—	679,812.09	—	—	—	7,020,723.65	(1,628,044.46)	6,072,491.28
	(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—
	1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
	2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—	—	—
	3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—	—	—
	4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
	(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—
	1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	—	—	—
	2. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—
	3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
	4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
	(iv) Transfer of shareholder's equity	—	—	—	—	—	—	—	—	—	—	—	—	—
	1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
	2. Transfer of surplus reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
	3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—
	4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
	(v) Special	—	—	—	—	—	—	—	—	—	—	—	—	—
	1. Withdraw	—	—	—	—	—	—	6,517,390.75	—	—	—	—	318,794.59	6,836,185.34
	2. Utilise	—	—	—	—	—	—	6,517,390.75	—	—	—	—	318,794.59	6,836,185.34
	(vi) Other	—	—	—	—	—	—	—	—	—	—	—	—	—
IV.	Balance at the end of the current period	797,848,400.00	—	—	—	849,718,158.42	—	(2,412,621.75)	—	176,686,903.51	11,236.91	4,916,550.59	64,971,088.99	1,891,739,716.67

Amounts for the prior period

Unit : RMB

Items	The Prior Period												
	Equity attributable to shareholders of the Parent Company												
	Other equity instruments				Capital reserve	Treasury Stock	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Minority interests	Total equity
	Share capital	Preferred Stock	Perpetual Capital Securities	Others									
I. Balance at the end of the previous period	797,848,400.00	—	—	—	849,500,658.42	—	(1,262,175.75)	—	176,686,903.51	11,236.91	610,372,203.12	104,927,369.69	2,538,084,595.90
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current period	797,848,400.00	—	—	—	849,500,658.42	—	(1,262,175.75)	—	176,686,903.51	11,236.91	610,372,203.12	104,927,369.69	2,538,084,595.90
III. Changes in the current period	—	—	—	—	—	—	(578,693.81)	—	—	—	(146,276,860.01)	(22,258,377.12)	(168,113,930.94)
(i) Total comprehensive income	—	—	—	—	—	—	(578,693.81)	—	—	—	(146,276,860.01)	(22,258,377.12)	(168,113,930.94)
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholder's equity	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Withdraw	—	—	—	—	—	—	—	3,448,165.79	—	—	—	54,562.11	3,502,727.90
2. Utilise	—	—	—	—	—	—	—	3,448,165.79	—	—	—	54,562.11	3,502,727.90
(vi) Other	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	849,500,658.42	0.00	(1,840,869.56)	—	176,686,903.51	11,236.91	464,095,343.11	82,668,992.57	2,368,970,664.96

8. Parent Company's Statement of Changes in Shareholder's Equity

Amounts for the reporting period

Unit: RMB

Items	The Reporting Period										
	Other equity instruments				Capital reserve	Treasury Stock	Less: comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total equity
	Share capital	Preferred Stock	Perpetual Capital Securities	Others							
I. Balance at the end of the previous period	797,848,400.00	—	—	—	849,699,490.92	—	—	—	176,686,903.51	180,604,797.37	2,004,839,591.80
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Effect of the correction of prior period accounting errors	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current period	797,848,400.00	—	—	—	849,699,490.92	—	—	—	176,686,903.51	180,604,797.37	2,004,839,591.80
III. Changes in the current period	—	—	—	—	—	—	—	—	—	160,016,433.20	160,016,433.20
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	160,016,433.20	160,016,433.20
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholder's equity	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserve to share capital	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(v) Special	—	—	—	—	—	—	—	—	—	—	—
1. Withdraw	—	—	—	—	—	—	—	2,625,554.32	—	—	2,625,554.32
2. Utilise	—	—	—	—	—	—	—	2,625,554.32	—	—	2,625,554.32
(vi) Other	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	849,699,490.92	—	—	—	176,686,903.51	340,621,230.57	2,164,856,025.00

Amounts for the prior period

Unit:RMB

Items	The Prior Period										
	Other equity instruments				Capital reserve	Less: Treasury Stock	Other Comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total equity
	Share capital	Preferred Stock	Perpetual Capital Securities	Others							
I. Balance at the end of the previous period	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	790,083,996.82	2,614,101,291.25
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Effect of the correction of prior period accounting errors	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current period	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	790,083,996.82	2,614,101,291.25
III. Changes in the current period	—	—	—	—	—	—	—	—	—	(86,386,639.11)	(86,386,639.11)
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	(86,386,639.11)	(86,386,639.11)
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholder's equity	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserve to share capital	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(v) Special	—	—	—	—	—	—	—	—	—	—	—
1. Withdraw	—	—	—	—	—	—	—	1,962,234.13	—	—	1,962,234.13
2. Utilise	—	—	—	—	—	—	—	1,962,234.13	—	—	1,962,234.13
(vi) Other	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	703,697,357.71	2,527,714,652.14

III. General Information of the Company

Shandong Molong Petroleum Machinery Company Limited (hereunder the "Company") is a joint stock limited company registered in the People's Republic of China. The Company's predecessor company is Molong Holdings, which was established jointly by Zhang En Rong, Lin Fu Long, Zhang Yun San, Xie Xin Cang, Liu Yun Long, Cui Huan You, Liang Yong Qiang, Shengli Oil Field Kaiyuan Oil Exploitation Company Limited and Gansu Industrial University Alloy Materials Factory on 27 December 2001 with the approval from Office for Restructuring the Economic System of Shandong Province with the letter Lu Ti Gai Han Zi [2001] No.53. On 30 December 2001, the Company obtained the business license for enterprise natural person (registration number Qi Gu Lu Zong Zi No. 004025 with a registered capital of RMB40,500,000.00, total number of shares of 40,500,000 shares of RMB1 each.

On 28 February 2003, upon the approval by Office of Ministry of Finance with Cai Ban Qi [2003] No. 30 Gansu Industrial University Alloy Materials Factory transferred 327,800 state-owned legal person shares of the Company to the National Council for Social Security Fund .

On 29 December 2003, upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2003] No. 50, the Company divided the nominal value per share to RMB0.10, and the change in total number of shares was 405,000,000 shares.

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2003] No. 50, on 15 April 2004, the Company issued 134,998,000 overseas listed foreign shares (H Shares) at the issue price of HK\$0.70 per share with a nominal value of RMB0.10 each, which were listed in the Growth Enterprise Market of the Stock Exchange of Hong Kong.

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2005] No. 13, on 12 May 2005, the Company issued 108,000,000 additional overseas listed foreign shares (H Shares) at the issue price of HK\$0.92 per share with a nominal value of RMB0.10 each. The Company's registered capital has changed to RMB64,799,800.00, and the total number of shares has changed to 647,998,000 shares.

Upon the approval by Zheng Jian Guo He Zi [2007] No.2 issued and signed by China Securities Regulatory Commission on 26 January 2007 and the approval issued by the Stock Exchange of Hong Kong on 6 February 2007, the listing status of the Company's overseas listed foreign shares (H Shares) in the Growth Enterprise Market of the Stock Exchange of Hong Kong has been cancelled on 7 February 2007, and changed to list on the Main Board of the Stock Exchange of Hong Kong.

Pursuant to the resolutions of 2006 Annual General Meeting convened on 25 May 2007, on the basis of a total of 647,998,000 shares as at 31 December 2006, the Company increased its share capital from unallocated profit with bonus issue of 2 shares for every 1 share and added its share capital from capital reserve with the addition of 2 shares for every 1 share, adding 2,591,992,000 shares in aggregate, and the addition date was 18 July 2007. Upon the addition, the Company's registered capital has changed to RMB323,999,000.00, and the total number of shares has changed to 3,239,990,000 shares.

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2007] No. 28, on 19 September 2007, the Company issued 49,252,000 additional overseas listed foreign shares (H Shares) at the issue price of HK\$1.70 per share with a nominal value of RMB0.10 each. The Company's registered capital has changed to RMB328,924,200.00, and the total number of shares has changed to 3,289,242,000 shares.

On 29 December 2009, the Board of the Company has resolved to implement share consolidation, that is consolidating every 10 shares in issue with nominal value of RMB0.10 each into 1 share with nominal value of RMB1.00. Such share consolidation has been completed on 7 January 2010.

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2010] No. 1285, on 11 October 2010, the Company offered 70,000,000 Renminbi ordinary shares (A Shares) with nominal value of RMB1 each at an offer price of RMB18 per share. The Company's registered capital has changed to RMB398,924,200.00, and the total number of shares has changed to 398,924,200 shares.

Pursuant to the resolutions of 2011 Annual General Meeting convened on 25 May 2012, on the basis of a total of 398,924,200 shares as at 31 December 2011, the Company enlarged its share capital through conversion from capital reserve in the proportion of 1 shares for each existing share, converting 398,924,200 shares in aggregate and the conversion date was 19 July 2012. Upon the conversion, the Company's registered capital has changed to RMB797,848,400.00, and the total number of shares has changed to 797,848,400 shares.

The address of the registered office and the principal place of business is 999 Wen Sheng Street, Shouguang City, Shandong Province.

The Company and its subsidiaries (hereunder the "Group") are principally engage in the manufacturing and sales of oil well pumps, oil well sucker rods, oil pumping machinery, oil pumping pipes, petroleum machinery, textile machinery, petroleum equipment and accessories, high pressure isolation switch, high pressure electrical appliances, related electrical equipment, metal material specialized for petroleum use and the acquisition of scrap metal; development of petroleum machinery and its associated products; information service on commodities (excluding agency); import and export within the scope of qualification certificate.

Zhang En Rong, a natural person, is the controlling shareholder and final control person of the Company.

The consolidated financial statements of the Group include ten companies consisting of Shouguang Baolong Petroleum Material Company LTD, Shouguang Maolong New Material Technology Development Company Limited, Weihai Baolong Petroleum Material Company LTD etc. Compared with last year, there is no change in the scope of the consolidated financial statements.

For the subsidiaries of the Group, please refer to "Changes in Scope of Consolidation" and "Interests in other Entity" of this note.

IV. Basis of Preparation of the Consolidated Financial Statements

1. Basis of preparation

The financial statements have been prepared on the going-concern basis and transactions and events actually occurred in accordance with the "Accounting Standard for Business Enterprises" promulgated by the Ministry of Finance of the People's Republic of China and relevant requirements (Collectively "Accounting Standard for Business Enterprises"), and China Securities Regulatory Commission's "Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15-General Provisions on Financial Reports (2014 Revision)" the Hongkong Companies Ordinance and the disclosure requirements of the Rules governing the listing of securities on the Hong Kong Stock Exchange, as well as the accounting policies and estimation as stated in "V. Significant Accounting Policies and Accounting Estimation" of this note.

2. Going concern

The Group has stable cash flows, has a history of recent profit management, and is able to obtain the financial resources to support the production, with a large number of non-implementation orders, with sustainable operation ability.

V. Significant Accounting Policies and Accounting Estimates

Specific accounting policies and accounting estimates tip: the Group adopted specific accounting policies and accounting estimates according to the actual production and management features including the operating cycle, recognition and measurement of receivables and bad debts, inventory measurement, fixed assets classification and depreciation method, intangible asset amortization, research and development costs capitalization requirements, revenue recognition and measurement, etc.

1. *Statement of compliance*

The financial statements of the Company for the first half of 2017 truly and completely reflect the financial position of the Group and the Company as at 30 June 2017 and the results of their operations and their cash flows in accordance with the requirement under ASBEs.

2. *Accounting period*

The accounting period of the Group is from 1 January to 31 December of each calendar year.

3. *Operating cycle*

The Group's operating cycle is 12 months, from 1 January to 31 December. This operating cycle is adopted for classification criteria for liquidity of assets and liabilities.

4. *Reporting currency*

The functional currency of the Company and those subsidiaries established in the PRC is Renminbi. The functional currency of the overseas subsidiaries is USD.

The Group adopts Renminbi as its currency when preparing for these financial statements.

5. *Accounting treatment of business combinations under common control and not under common control*

The assets and liabilities that the Group acquires as the combining party in a business combination under common control shall be measured at their book value of the combined party on the combining date in the consolidated statements of the ultimate controlling party. The balance between the book value of the net assets acquired and that of the consideration paid shall be used to adjust capital reserves. If capital reserves are insufficient for offsetting, retained earnings will be adjusted.

The identifiable assets, liabilities and contingent liabilities acquired from the acquiree in a business combination not under common control shall be measured at fair value on the acquisition date. The combination costs shall be the aggregate of the fair value of cash or non-cash assets paid by the Group on the acquisition date to obtain control over the acquiree, the debts issued or undertaken by the Group and the equity securities issued as well as all relevant direct costs for the business combination (for a business combination realised by two or more transactions, the combination costs shall be the aggregate of the costs of all separate transactions). The amount of the combination costs in excess of the fair value of the identifiable net assets of the acquiree shall be recognized as goodwill. If the combination costs are less than the fair value of the identifiable net assets of the acquiree, the fair value of the identifiable assets, liabilities and contingent liabilities acquired from the combination as well as the fair value of the non-cash assets or the equity securities issued for paying the consideration will be reviewed. If the combination costs are still less than the fair value of the identifiable net assets after review, the balance shall be accounted for as non-operating income for the current period.

6. *Basis of preparation of consolidated financial statements*

The Group will include all subsidiaries and variables interest entities into the consolidated financial statements.

Necessary adjustments will be made when there is inconsistency on the accounting policies or accounting period between the Company and its subsidiaries when preparing the consolidated financial statements.

Significant intra-group transactions, current balance and unrealised profits within the scope of combination shall be offset in preparing the consolidated statements. The shares of owners' equity in subsidiaries not attributable to the parent company and the net loss or profit for the current period, other comprehensive income and total comprehensive income attributable to minority interests shall be presented in the consolidated financial statements as "minority interests, profit or loss attributable to minority interests, other comprehensive income attributable to minority interests and total comprehensive income attributable to minority interests", respectively.

The operating results and cash flows of a subsidiary acquired from business combination under common control shall be included in the consolidated financial statements from the beginning of the current period of the combination. When preparing the comparative consolidated financial statements, relevant items in the financial statements of the previous year will be adjusted as if the reporting entity formed after the combination had been in existence since the ultimate controlling party gains control.

In preparing consolidated statements, equity interests in an investee under common control realised by two or more transactions, which finally bring about the business combination, shall be adjusted as if they had been in existence in the current state since the ultimate controlling party gains control. When preparing the comparative statements, to the extent that the Group and the combined party are both under the control of the ultimate controlling party, the relative assets and liabilities of the combined party shall be included in the comparative statements of the Group's consolidated financial statements, and the increase in net assets arising from the combination will be adjusted against the related items under owners' equities in the comparative statements. To avoid double counting the value of the net assets of the combined party, long-term equity investments before the combination, as well as the relevant recognized profit or loss, other comprehensive income and other changes in net assets from the day of acquiring the original equity interest or the day when the Group and the combined party are under the same ultimate control, whichever is later, to the combination date shall be offset against the retained earnings at the beginning of the period and the profit or loss for the current period in the comparative statements, respectively.

The operating results and cash flows of a subsidiary acquired from a business combination not under common control unit shall be included in the consolidated financial statements since the Group gains control. When preparing the consolidated financial statements, the financial statements of the subsidiary shall be adjusted based on the fair value of the identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

For equity interests in an investee not under common control realised by two or more transactions, which finally bring about the business combination, when preparing the consolidated statements, equity interests in the investee before the acquisition date shall be re-measured at fair value on the acquisition date and the balance between the fair value and the book value shall be included in the investment gains for the current period. Except for other comprehensive income arising from changes as a result of re-measurement of net liabilities or net assets of the defined benefit plan of the investee, other comprehensive income under the equity method involving the equity interests in the investee held before the acquisition date and other changes in equity except net profit or loss, other comprehensive income and profit distribution shall be converted into investment gains or loss in the period in which the acquisition date falls.

For partial disposal of the Group's long-term equity investments in a subsidiary without losing control, in the consolidated financial statements, the balance between the disposal consideration and the corresponding share of the subsidiary's net assets entitled from the disposal of the long-term equity investments, which is continuously calculated since the acquisition date or the combination date, shall be used to adjust the capital surplus or share premium. If the capital surplus is insufficient for offsetting, the retained earnings shall be adjusted.

For the loss of control over a subsidiary due to disposal of a portion of the equity investment or other reasons, the remaining equity is measured at fair value on the date when the control is lost. The difference arising from the sum of consideration received for disposal of equity interest and the fair value of remaining equity interest over the share of net assets of the former subsidiary calculated continuously since the purchase date or consolidation date based on the shareholding percentage before disposal are recognised as investment income in the period when the control is lost, with goodwill offset simultaneously. Other comprehensive incomes relating to the equity investment of the original subsidiaries shall be transferred to the investment income for the period when control is lost.

For disposal of the Group's equity investments in a subsidiary realised by two or more transactions until loss of control, if the transactions fall under a package deal, those transactions shall be accounted for as a deal under which the subsidiary is disposed of and control is lost. However, before losing control over the subsidiary, the balance between each disposal consideration and the corresponding share of the subsidiary's net assets entitled from the disposal of the investments shall be recognized as other comprehensive income in the consolidated financial statements and when control is lost, converted into investment gain or loss for the period in which control is lost.

7. *The accounting recognition for joint arrangements and joint operation*

The joint arrangements of the Group consist of joint operation and joint ventures. For joint operation projects, the Group, as a joint operation party, recognizes assets held and liabilities assumed by itself, recognises other assets held and liabilities assumed on a pro-rata basis, and recognizes related revenues and expenses itself or on a pro-rata basis according to the relevant agreements. For assets transaction involving purchases and sales with the joint operation which does not constitute a business, only the proportion of profit or loss attributable to other parties to the joint operation which results from the transaction is recognized.

8. *Standards for recognising cash and cash equivalents*

Cash in the statement of cash flow of the Group refers to cash on hand and the deposits ready for payment at any time. Cash equivalents in the statement of cash flow refer to the investment with a term less than 3 months and high liquidity that are easily convertible to known amounts of cash and subject to an insignificant risk of change in value.

9. *Foreign currency operations and translation of statements denominated in foreign currency*

(1) Foreign currency transactions

The Group's transactions in currencies other than RMB are recorded at the rates of exchanges prevailing on the dates of the transactions.

On balance sheet date, foreign currency monetary items are translated into RMB at the spot exchange rate of that date. Exchange differences arising thereon are directly expensed in the profit and loss for the current period unless they arise from foreign currency borrowings for the purchase or construction of qualifying assets which are eligible for capitalisation. Non-monetary items in foreign currency measured at historical cost shall continue to be measured at the functional currency at the spot exchange rate prevailing at the date of transaction. Non-monetary items in foreign currencies measured at fair value are translated at the spot exchange rate prevailing at the fair value determination date. Translation difference arising thereon are treated as changes in fair value and included in profit or loss for the current period or recognised as other comprehensive income..

(2) Translation of financial statements denominated in foreign currency

Assets and liabilities in the balance sheet denominated in foreign currencies are translated at the spot rate prevailing at the balance sheet date. The equity items, except for undistributed profits, are translated at the spot exchange rate when they occurred. Income and expenses in the income statement denominated in foreign currencies are translated at the spot exchange rate at the date of the transactions. The resulting differences are presented under other comprehensive income. Cash flow dominated in foreign currency are translated at the spot rate when occurs. Effects on cash arising from the change of exchange rate are presented as separate item in the cash flow statement.

10. Financial instruments

Financial asset or financial liability will be recognised when the Company became one of the parties under a financial instrument contract.

(1) Financial assets

(1) *Classification, basis of recognition and methods of measurement of financial assets*

The Group classifies its financial assets into financial asset at fair value through profit or loss, held-to-maturity investment, loans and receivables, as well as available-for-sale financial assets by purposes of investment and economic substance.

Financial assets at fair value through profit or loss consist of financial assets held for trading and those designated as financial assets at fair value through profit or loss at initial recognition. The Group shall classify financial assets as financial assets held for trading as long as they meet one of the following conditions: the purpose of acquiring the financial assets is to sell them within a short time; they fall under a portfolio of identifiable financial instruments for centralized management, and there is objective evidence that the Company has managed the portfolio in a manner for making profits within a short time; they fall under derivative instruments, except those designated as effective hedging instruments, financial guarantee contracts and equity-linked investments that are not quoted in an active market and whose fair value cannot be measured reliably and have to be settled through delivery. The Group shall designate financial instruments as financial assets at fair value through profit or loss at initial recognition only when they meet one of the following conditions: The designation can eliminate or significantly reduce inconsistencies in terms of recognition and measurement of relevant gains or losses caused by different measurement bases of the financial instruments. The formal written documents of corporate risk management or investment strategies have recorded that the financial portfolio is managed and assessed on the basis of the fair value and this is reported to the key management personnel. The financial instrument is a hybrid instrument containing one or more embedded derivatives, unless the embedded derivatives do not significantly change the cash flow of the hybrid instrument or obviously should not be separated from the relevant hybrid instrument. The hybrid instrument contains embedded derivatives that need to be separated but cannot be measured separately on the acquisition date or on the subsequent balance sheet date. The Group does not have such financial assets at present, which shall be subsequently measured at fair value. Changes in fair value shall be accounted for in gains or loss from changes in fair value. The interests or cash dividends acquired while the Group holds the assets shall be recognized as investment gains. In the process of disposal, the balance between its fair value and the initial booked amount shall be recognized as investment gains or loss and gains or loss from changes in fair value will be adjusted.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments using the effective interest method are subsequently measured at amortised cost, the amortisation or impairment and gains or losses are recognised upon termination arising and are recognised in the profit or loss for the current period.

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets are non-derivatives that are either designated or not classified as other financial assets. In this type of asset, the equity instruments without quoted price in an active market and whose fair value cannot be reliably measured and the derivative financial instruments related to and settled by delivery of an equity instrument, are subsequently measured at cost; the other instruments in an active market, although there is no active market price but the fair value can be reliably measured, are measured at fair value, and the changes in fair value are recognized in other comprehensive income. These financial assets are subsequently measured at fair value, except for impairment losses and foreign exchange gain and loss of monetary financial assets, the changes in fair value of available-for-sale financial assets are recognized directly in shareholders' equity, when the financial asset is derecognized, the cumulative amount of changes in fair value recognized directly in equity before is recognized in profit or loss. Interests of available-for-sale debt instruments investment which are calculated by the effective interest method, and cash dividends related to available for sale equity instruments declared by the investee are recognized as investment income in profit or loss for the period.

(2) *Recognition and measurement of transfers of financial assets*

Financial asset that satisfied any of the following criteria shall be derecognised: (1) the contract right to recover the cash flows of the financial asset has terminated; (2) the financial asset, along with substantially all the risk and return arising from the ownership of the financial asset, has been transferred to the transferee; and (3) the financial asset has been transferred to the transferee, and the transferor has given up the control on such financial asset, though it does not assign maintain substantially all the risk and return arising from the ownership of the financial asset.

When the entity does not either assign or maintain substantially all the risk and return arising from the ownership of the financial asset and does not give up the control on such financial asset, to the extent of its continuous involvement in the financial asset, the entity recognises it as a related financial asset and recognises the relevant liability accordingly.

If all criteria of recognition of transfer of financial assets are satisfied, the difference between the carrying amount of the financial assets transferred and the sum of the consideration received from the transfer and the accumulated changes in fair value originally included in other comprehensive income shall be recognised in the profit or loss for the period.

In the case where only part of the financial asset meets the criteria for de-recognition, the carrying amount of financial asset being transferred is allocated between the portions that to be derecognized and the portion that continued to be recognized according to their relative fair value. The difference between the amount of consideration received for the transfer and the accumulated amount of changes in fair value that was previously recorded in other comprehensive income of the part qualifies for de-recognition and the above-mentioned allocated carrying amount is charged to profit or loss for the period.

(3) *Testing of impairment of financial assets and accounting method*

The Company assesses the carrying amount of financial assets, other than those at fair value through profit and loss, at the balance sheet date. Impairment of financial assets is provided for when there is objective evidence that a financial asset is impaired.

Impairment will be provided on the equity instruments measured by the cost when the performance of the investee continued to decline and there is no sign of reversing. The impairment is calculated based on the difference between the present value of estimated future cash flows and its carrying value.

When an impairment of financial assets carried at amortized cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit loss that have not been incurred). If there is objective evidence indicating that the value of the financial asset is recovered and recovery is related objectively to events occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit and loss for the period.

Where an available-for-sale financial asset is impaired, the cumulative loss generated from decline of fair value that had been recognized directly in shareholder's equity shall be reversed and included in the impairment loss. For the available for sale debt instruments investment of which impairment loss has been recognized, if, in a subsequent period, the fair value of which increases and it can be objectively related to events occurring after the impairment loss was recognized, the previously recognized impairment loss shall be reversed and the amount of reversal is recognized in profit and loss for the period. For the available for sale equity instruments investment of which impairment loss has been recognized, the increase in fair value in a subsequent period shall be directly included in shareholder's equity.

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(2) **Financial liabilities**

(1) *Classification, recognition and measurement of financial liabilities*

At initial recognition, financial liabilities are classified either as financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at fair value through profit or loss include trading financial liabilities and those designated as fair value through profit or loss on initial recognition. They are subsequently measured at fair value. The net gain or loss arising from changes in fair value; dividends and Interest expenditure related to such financial liabilities are recorded in profit or loss for the period.

Other financial liabilities are subsequently measured at amortized cost, using the effective interest method.

(2) *Conditions of derecognition of financial liabilities*

A financial liability or a part of financial liability is derecognized when and only when the obligation specified in the contract is discharged or cancelled. An agreement between the Company and a lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. As for substantive changes made to the contract terms (whole or in part) of the existing financial liabilities, the existing financial liabilities (or part of it) will be derecognized. And financial liabilities after term revision will be recognized as a new financial liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss for the period.

(3) *Method for determination of fair values of financial assets and financial liabilities*

Fair values of financial assets and financial liabilities of the Group are measured at the prices in principal market. In case there is no principal market, fair values of financial assets and financial liabilities are calculated using the price which is the most beneficial to the market, and using valuation technology which is the most appropriate at that time and with sufficient available data and other information. The inputs which are used to measure the fair value have been divided into 3 levels by the Company: Level 1-inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities. Level 2-inputs are quoted prices for the asset or liability (other than those included in Level 1) that are either directly or indirectly observable. Level 3-inputs are unobservable inputs to the related assets or liabilities. The Level 1 inputs are the first priority to use by the Group, and level 3 inputs will be the last one to use.

During the reporting period, the Group had no financial assets at FVTPL and financial liabilities at FVTPL.

11. Accounts receivable

(1) **Accounts receivable that are individually significant and are provided for bad debts on individual basis**

The basis or standard for determining the significant level of individual receivable	The Group recognizes accounts receivable of over RMB3.00 million and other receivables of over RMB2.00 million as receivables that are individually significant.
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Provision-making method on individual receivables above significant level	The Group conducts impairment test for receivables that are individually significant separately, and tests financial assets without impairment separately, including conducting impairment test on financial asset groups with similar credit risk characteristics. For accounts receivable with impairment loss recognized in single item test, they ceased to be included in accounts receivable portfolio with similar risk characteristics for impairment test.
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(2) **Receivables for which provision of bad debts made by portfolio of credit risk characteristics**

Provided for bad debts by aging analyses of accounts of portfolio:

☐ Applicable ☒ Not applicable

Provided for bad debts by balance fraction of portfolio:

☐ Applicable ☒ Not applicable

Provided for bad debts by other methods of portfolio:

☐ Applicable ☒ Not applicable

(3) **Accounts receivable that are individually insignificant but are provided for bad debts on individual basis**

Reason for making bad debt provision individually

If there is an evidence indicating that the credit risk of certain receivables is significant, the receivables will be provided for bad debts on individual basis.

Method for bad debt provision

Individual determination method

12. *Loan and provision for loan*

The Group has classified its loans into five categories: pass, special mention, substandard, doubtful and loss, according to the following standards:

Pass loan: Loans for which corporate borrowers (personal borrowers) may perform the loan agreement (including the loan extension agreement) and repay the loan when it is due. (Duration characteristics of the extension: one extension, the duration of which is no longer than 0.5 times the original loan tenure; or the duration of one extension does not exceed six months).

Special mention loan: Loans for which corporate borrowers (personal borrowers) are currently solvent and may pay interest on normal terms despite some factors that might have an adverse impact on repayment. (Duration characteristics of the extension: the loan is extended once for a duration of no longer than the original loan tenure; or the duration of the extension does not exceed twelve months). Loans for which corporate borrowers (personal borrowers) are currently insolvent and may not pay interest on normal terms but the repayment of principal could be recovered after the enforcement of collateral.

Substandard loan: Loans for which corporate borrowers (personal borrowers) are experiencing definable solvency issues and may not pay interest on normal terms, for which collection of loan in full is impossible relying solely on the normal income of the borrowers and on which certain losses might be inflicted even after the enforcement of collateral. (Duration characteristics of the extension: the duration of one or more extensions are longer than the original loan tenure but shorter than 18 months).

Doubtful loan: Loans for which collection in full is impossible from the corporate borrowers (personal borrowers), the interest is not paid on normal terms and on which significant losses might be inflicted even after the enforcement of collateral. (Duration characteristics of the extension: the duration of one or more extensions are longer than the original loan tenure but shorter than 30 months).

Loss loan: Loans for which collection in full is impossible from the corporate borrowers (borrowers), the interest is not paid on normal terms and which are considered uncollectable after all collection measures or all necessary legal proceedings, and loans for which corporate borrowers go bankrupt or borrowers are deceased and which are not fully repaid by liquidated assets or estates. (Duration characteristics of the extension: the duration of the extension is longer than 2.5 times the original loan tenure or longer than 30 months).

During the implementation of the five-tier classification of loans, the class that a corporate borrower (personal borrower) shall be included in could be adjusted in accordance with the results of the analysis on the corporate borrower's (personal borrower's) actual operations, asset changes, repayment of principal and interest in cases of loans and collateral guarantees.

In terms of the impairment of the loans and advances that have been extended, after considering whether the principal or interest of a loan is past due, whether the borrower will encounter liquidity problems and credit rating downgrades, or be relegated to a lesser position in the market competition, or violate the original contract terms, the following factors shall also be taken into account: the value of collaterals and pledges, sustainability of the borrower's business plan, the borrower's ability to increase performance in times of financial difficulties, recoverable amount from the project and expected recoverable amount in case of insolvent liquidation, other available sources of finance and the amount of the collaterals in case of realization, the expected time for the cash inflows. etc. After conducting a reasonable assessment and judgment on these factors, provision shall be made for impairment loss based on the differences between the present value of the expected future cash flows and the carrying amount.

13. *Inventories*

The Company does not need to comply with the disclosure requirements for special industry.

Inventories of the Group mainly include raw materials, entrusted processed materials, work-in-progress and finished products.

The inventory taking system shall be on a perpetual basis. Inventories are initially measured at cost, When inventories are delivered, weight average method is adopted to determine the actual cost of inventories delivered. Low-value consumable and packaging materials are amortized by one-time written-off.

At the end of the reporting period, inventories are calculated at the lower of cost and net realizable value. If the net realizable value of the inventories are lower than the cost, provision for impairment is recognized. The provisions for goods-in-stock and large-amount raw materials are made on the excess of their costs over their lower net realizable values on an item-by-item basis. The provisions for other inventories items shall be made according to their category.

Net realizable value of goods-in-stock, work-in-progress or held-for-sale raw materials are determined by their estimated sales less the related selling expenses and taxes. Net realizable value of held-for-production raw materials are determined by their estimated sales price of finished products less the production cost, related selling expenses and taxes.

14. *Assets classified as held for sale*

When relevant assets of the Group satisfy the following conditions, the Group shall recognize them as held for sale: such relevant assets must be available for sale under current condition as per common terms on sale of such assets; a resolution has been put forward by the approval lending departments of the Group on the disposal of such assets; an irrevocable transfer agreement has been entered into between the Group and the transferee; and such transfer shall be completed within one year.

15. *Long-term equity investments*

Long-term equity investments include the Group's investments in subsidiaries, investments in associates and jointly ventures.

Our judgement of joint control is based on the fact of arrangements that all participants involved or groups of participants jointly control and that policies of relevant activities must be unanimously agreed by participants who jointly control the arrangement.

When the Group owns 20% or above but less than 50% of the voting right of the investee directly, or indirectly through subsidiaries, it is considered to have a significant influence on the investee. If the voting right in the investee is less than 20%, the influence on investee will be decided based on facts and circumstances including representatives in the board of directors of similar authority of the investee, or participation in the process of formulating the financial and operating policies of the investee, having significant transactions with the investee, dispatching management personnel to the investee, and providing key technology and data to the investee.

An investee that is under the control of the Group is deemed as a subsidiary of the Group. For long-term equity investments acquired through a business combination under common control, they will be used as the initial investment cost of long-term equity investment according to the share of the consolidated party in the book value of net assets in the financial statements of the ultimate controlling party on the date of consolidation. If the book value of net assets of the consolidated party at the date of consolidation is negative, long-term equity investment cost is recognized as nil.

For shareholding which obtained by different transactions in stages and become business combination finally, if it belongs to package transaction, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to package transaction, according to proportion of fair value of net assets of acquiree after the combination in the consolidated financial statements, and accounted as the initial investment cost of long-term investment. Difference between initial investment cost and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust share premium. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

For long-term equity investment acquired through business combination not under common control, consolidation cost will be treated as the initial investment cost.

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For shareholding which obtained by different transactions in stages and become business combination finally, if it belongs to package transaction, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to package transaction, Initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will change to cost method. For shareholding which it holds before the date of acquisition which uses equity method, other related comprehensive income which use equity method for accounting shall not be adjusted, such investment shall use the same accounting basis as the invested company when it directly dispose related assets or liabilities upon disposal. For shareholding which it holds before acquisition and accounted for under fair value method in the available-for-sale financial assets, the accumulated change in fair value which is originally included in other comprehensive income shall be change to profit or loss for the current period on the date of combination.

Apart from the long-term equity investments acquired through business merger, long-term equity investments acquired by cash will be used as investment cost according to the actual payment of the purchase price; long-term equity investments acquired through issuance of equity securities will be used as investment cost according to the fair value of the equity securities issued; long-term equity investments from investors will be used as investment cost according to the investment contracts or agreement value.

The Group's investments in subsidiaries are accounted for using the cost method and using equity method for the investments in joint ventures and associates.

For long-term equity investments for which the subsequent measure is accounted for using cost method, when making additional investment, carrying value of the long-term equity investments will be added according to the fair value of cost of additional investment and the related expenses incurred by related transactions. For cash dividend or profit paid by the invested company, it shall be recognized as investment income for the current period using the amount which it entitles.

For long-term equity investment for which the subsequent measurement is accounted for under equity method, carrying value of long-term equity investment shall be increased or decreased accordingly according to the change in the shareholders equity of the invested company. When determining the amount of proportion of net profit or loss in the invested company which it entitles, fair value of each identifiable assets of the invested company at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the Group, and after offsetting profit or loss incurred in internal transaction between associates and joint ventures, and calculate the proportion which is attributable to the investing company according to the shareholding, and recognized after adjustment is made to the net profit of the investees.

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognized as investment income for the period. For long-term investments accounted for under equity method, the movements of shareholder's equity, other than the net profit or loss, of the investee company, previously recorded in the shareholder's equity of the Company are recycled to investment income for the period on disposal.

When the Company ceases to have control or significant influence on the invested company due to the reasons such as disposal of part of its equity investment, the remaining shareholding after disposal shall be accounted for under available-for-sale financial assets, and the difference between fair value and the carry value on the date of loss of common control or significant influence will be included in the profit or loss for the current period. Other comprehensive income recognized in the original equity investment which is accounted for using equity method, upon it will no longer be accounted for under equity method it shall be using the same accounting basis as the invested company directly disposing related assets or liabilities.

For loss of control in the invested company due to partly disposed long-term equity investment, for remaining shareholding which can apply common control or impose significant influence to the invested company after disposal, shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence after disposal, it can be accounted as under available-for sale financial assets, and difference between carrying value of equity disposal and the disposal consideration shall be included as investment income, difference between fair value and the carrying value of remaining shareholding on the date loss of control shall be included in the investment profit or loss for such period.

For each transaction which equity are disposed in stages until loss of control, which does not belong to package transaction, the accounting for each transaction shall be conducted separately. For the package transaction, the accounting for each transaction shall be treated as disposing subsidiary and loss of its control. However, the difference between each disposal price before loss of control and the carrying value of the corresponding long-term investment of the equity disposed, shall be recognized as other comprehensive income, and shall be transfer to the profit or loss for the current period upon loss of control.

16. Investment Properties

Not applicable

17. Fixed assets

(1) Recognition conditions

Fixed assets are tangible assets with significant value and useful lives for more than one year, and held for use in the production goods, renting of services, for rental, or for administrative purposes. Fixed assets are recognized when it is highly probable of economic benefits inflow to the Group and their costs can be measured reliably. The Group's fixed assets include buildings, machinery, vehicles, electronic equipments and other equipments.

(2) Depreciation method

Categories	Depreciation method	Depreciation period (year)	Estimated Residual Value Rate (%)	Annual Depreciation Rate (%)
Buildings	Straight-line depreciation	20	5	4.75
Machinery and equipments	Straight-line depreciation	5–20	5	19.00–4.75
Electronic equipments	Straight-line depreciation	3–5	5	31.67–19.00
Vehicles	Straight-line depreciation	5	5	19.00
Other equipments	Straight-line depreciation	5	5	19.00

(3) Finance leased fixed assets recognized basis, pricing and depreciation method

The lower of the fair value of the finance leased fixed asset and the present value of the minimum lease payment is the recorded value of the leased asset. The difference between the recorded value of the leased asset and the minimum lease payment is the unrecognized financing cost.

The depreciation policy of the finance leased fixed asset is consistent with that of its own fixed assets. When a leased asset can be reasonably determined that its ownership will be transferred at the end of the lease term, it is depreciated over the period of expected use; Otherwise, the asset is depreciated over the shorter of the lease term and its useful life. The Group currently has no finance leased fixed assets.

The fixed asset is derecognised when the fixed asset is disposed of or is expected not to generate economic benefits by use or disposal. The amount of income from sale, transfer, scrap or derogate of fixed assets, after deducting its book value and related taxes, is recognized as profit or loss of the current period.

18. *Construction-in-progress*

Construction-in-progress measured at the costs actually incurred. The cost of construction work undertaken by the Company itself includes costs incurred during construction period, capitalized borrowing costs and other necessary costs incurred for its intended use.

Construction-in-progress is transferred to fixed assets when the assets are ready for their intended use at an estimated value based on the construction budget, construction price or actual cost of construction. Depreciation is charged from the next month after it is put into use. The value of the asset will be adjusted when the resolution procedures are completed based on actual costs. However, it does not to revise accumulated depreciation and amortization.

19. *Borrowing costs*

Borrowing costs include interest, amortization of discount or premium related to borrowings, ancillary costs incurred in connection with the borrowings and exchange difference arising from foreign currency borrowings.

In terms of the borrowing costs involving fixed assets, investment real estate and inventory directly attributable to over one year construction or production to achieve its intended use or sale, the capitalization of the borrowing costs can commence only when all of the conditions are satisfied; expenditures for the asset are being incurred, borrowing costs are being incurred, and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. When the qualified asset under acquisition, construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased. The amount of other borrowing costs shall be recognized in profits or losses in the current period. If the qualified asset is interrupted abnormally during construction or production, and interruption has lasted for three consecutive months, the capitalization of the borrowing costs shall be suspended until the construction or production of a fixed assets is resumed.

The amount of interest of specific borrowings occurred for the period shall be capitalized after deducting any interest earned from depositing the unused specific borrowings in the bank or any investment income arising on the temporary investment of those borrowings during the capitalization period. The capitalized amount of general borrowings shall to be determined at the basis that the weighted average (of the excess amounts of cumulative assets expenditures over the specific borrowings) times capitalization rate (of used general borrowings). The rate of capitalization is determined by the weighted average interest rate of general borrowing.

During capitalization period, exchange difference arising from specific-purpose borrowings denominated in foreign currency is capitalized while exchange difference arising from general-purpose borrowings denominated in foreign currency is recognized in profit or loss in the current period.

20. *Intangible Assets*

(1) **Measurement method, useful life and impairment test**

The Group's intangible assets mainly include land use right (maritime use right), patented technology, nonpatented technology and software, etc. Intangible assets are measured at the actual costs at acquisition. For purchased intangible assets, actual paid cost and other relevant expenses are used as the actual cost. For intangible assets invested by investors, the actual cost is determined according to the values specified in the investment contract or agreement, while for the unfair agreed value in contract or agreement, the actual cost is determined at the fair value. The intangible asset, which is owned by the acquiree in a combination under different control but is not confirmed in the financial statement, shall be confirmed as intangible asset at its fair value upon the initial recognition on the acquiree's assets.

For intangible assets with limited useful lives, the Group adopts straight line method for amortization at the month of acquisition. The Group amortizes land use right (maritime use right) on the basis of its useful life by straight line method since it is acquired. The patent technology, non-patent technology and other intangible assets are amortized evenly on the basis of shorter of estimated useful life, stipulated beneficial year by contract, and legal available year. The amortization amount is accounted into profit and loss in the current period. The Group makes the assessment on the estimated useful life and amortization method of intangible assets with limited useful life at the end of each year. Any changes will be dealt with as changes on accounting estimates.

Due to various unforeseeable reasons the intangible assets bring economic benefits to the Group for the period and confirm with the useful lives. The Group will review the useful lives on those intangible assets with indefinite useful lives at each of the accounting period.

(2) Accounting policy regarding the expenditure on the internal research and development

With reference to the nature of expenditures and uncertainty of the final achievement, expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

From early investigations to the applications after maturity, the new product R&D projects of the Group shall undergo the two phases of research and development: the phase of research includes such stages as investigation, substantiation, the initiation and approval of annual new product R&D plans, early researches (including formula design, process design, equipment selection, formulation of technical standards, etc.), the preparation and approval of monthly new product R&D plans and so on, among which the completion of approval of monthly new product R&D plans symbolizes the end of the phase of research for a new product. The phase of development includes specifically such stages as trial production of the new product, project acceptance, etc., the latter of which symbolizes the end of the phase of development for a new product.

Start time of the phase of development: the point when the approval of monthly new product R&D plans is completed, the early researches are completed and the formula, production process and technical standards for the product are finalized.

Expenditure on the research phase is recognized in profits or losses in the current period in which it is incurred.

Expenditure on the development phase is recognized as an intangible asset when all of the following conditions are satisfied:

- (1) It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (2) the management's intention to complete, use or sell the intangible asset;
- (3) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- (5) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure on the development phase which does not meet the above conditions is included in the profit or loss in the current period in which it is incurred. Expenditure in the development phase which has been included in the profit or loss in the prior period will not be recognized as asset in subsequent period. The capitalized expenditures in development phase are presented as development expenditure in balance sheet and it is carried down into the intangible asset since the date when the asset reaches the status of available for use.

21. Impairment of long term assets

The Company assesses items such as long term equity investments, investment properties, fixed assets, construction in progress measured by cost model, intangible assets with definite life, the Company conducts impairment test where there is any indication of impairment. Intangible assets with indefinite goodwill and useful life are tested at the end of each year for impairment, whether indication of impairment exist or not.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best available information. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of the future cash flows expected to be derived from the asset over the course of continued use and final disposal is determined as the amount discounted using an appropriately selected discount rate. Provisions for assets impairment shall be made and recognised for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the asset group to which the asset belongs. The asset group is the smallest group of assets capable of generating cash flows independently.

When performing impairment test on goodwill that is separately presented in the financial statements, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

If the carrying amount of such asset exceeds its recoverable amount after impairment test, the difference is recognised as impairment losses. The above impairment losses is irreversible in the subsequent accounting period once recognized.

22. Long term prepayments

The Group's long term prepayments included electric platform and steel chartered cost. It will be amortized evenly during its beneficial period, If the long term prepayments are no longer beneficial to the subsequent accounting periods, the unamortized balance is then fully transferred to profit or loss for the current period. The amortization period of electric platform and steel chartered is 3 years.

23. Employee compensation

(1) Accounting treatment of short-term employee compensation

Short-term employee benefits include staff salaries, bonuses, allowances and subsidies, employee welfare expenditures, social security contributions (e.g. compensation insurance, work injury insurance and birth insurance), housing funds, union running costs, employee education costs, short-term paid leaves, short-term profit sharing schemes, non-monetary welfare and other short-term salaries. The Group recognises employee remuneration payables as liabilities during the accounting period in which employees render their services and included in profits or losses in the current period or related cost of assets based on the beneficiaries of the services.

(2) Accounting method of welfare post resignation

Welfare post resignation mainly include basic pension insurance, unemployment insurance. According to the Company's risks and obligations, they are classified as defined contribution plans, defined benefit plans. As for the defined contribution plans, the contributions which are made for individual subjects in exchange for the staff's services rendered in the accounting period shall be recognized as liabilities on the balance sheet date and included in profits or losses in the current period or relevant asset costs according to the beneficiaries. There is no defined benefit plan in the Group.

(3) Accounting method of welfare post cancellation of labor relationship

The Group does not currently exist welfare post cancellation of labor relationship.

(4) Accounting method of other long-term compensation

The Group does not currently exist other long-term compensation.

24. Estimated Liabilities

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A provision is recognised as a liabilities when an obligation related to a contingency, such as guarantees provided to outsiders, pending litigations or arbitrations, product warranties, redundancy plan, onerous contract, reconstructing, expected disposal of fixed assets, satisfied all of the following conditions: (a) the obligation is a present obligation of the Group; (b) it is probable that an outflow of economic benefits will be required to settle the obligation and (c) the amount of the obligation can be measured reliably.

A provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation. Considering the factors, such as risk, uncertainties, and time value of money related to the contingencies. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflows. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

If all or part of the expense necessary for settling the estimated liabilities is expected to be compensated by the third party, the amount of compensation is separately recognised as an asset when it is basically determined to be recoverable, and the recognised amount of the compensation shall not exceed the carrying amount of the estimated liabilities.

The Group reviews the carrying amount of a estimated liabilities at the balance sheet date and the carrying amount shall be adjusted to the current best estimate.

25. *Other financial instruments, e.g preferred shares and perpetual bond*

Not Applicable

26. *Production Safety Fee*

The Group collects, utilizes and reviews the production safety fee pursuant to the relevant requirements of Notice of the Ministry of Finance and the State Administration of Work Safety on Issuing the Administrative Measures for the Collection and Utilization of Enterprise Work Safety Funds (No. 16 [2012] of the Ministry of Finance and the State Administration of Work Safety) and Notice of the Ministry of Finance on Issuing Interpretation No. 3 of the Accounting Standards for Business Enterprises (No. 8 [2009] of the Ministry of Finance).

The provision of Group's machinery production enterprise safety production costs is based on the actual sales revenue in last year, which is extracted monthly by taking excess regressive manner in accordance with the following standard. The provision will be used for enhancing and improving safe production conditions of enterprises or projects.

- (1) Operating income of RMB10 million and below, accrued in accordance with 2%;
- (2) Operating income of RMB10 million to RMB100 million (inclusive), accrued in accordance with 1%;
- (3) Operating income of RMB100 million to RMB1,000 million (inclusive), accrued in accordance with 0.2%;
- (4) Operating income of RMB1,000 million to RMB5,000 million (inclusive), accrued in accordance with 0.1%;
- (5) Operating income above RMB5,000 million, accrued in accordance with 0.05%.

The provision of the production safety fee for newly established enterprises and machinery production enterprise with production less than one year is based on actual sales revenue for the year. The provision is accrued monthly.

The provision of production safety fee is recognized in profit and loss for the current period and "special reserve" account shown separately under owner's equity. When using the reserve for maintaining production safety fee, the amount will be debited from the "special reserve" if the fee is expenses nature. When using the reserve for maintaining production safety fee of fixed asset, the amount will be debited from the "construction-in-progress" item for the amount recorded in the cost of related assets. When the status of the project is ready for intended use, the costs of such production safety fee should be recognised as fixed assets. Meanwhile, "special reserve" will be offset by the costforming fixed asset. If the balance of "special reserve" is inadequate for offsetting purpose, the production safety fee will be recognised in profit and loss for the current period.

27. Revenue

The Company does not need to abide by disclosure requirements in special industry.

The Group's operation revenue is mainly from sale of goods, provision of services and interest income. Details of revenue recognition are as follows:

(1) Revenue from sales of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied: (a) the Company has transferred the significant risks and rewards of ownership of the goods to the buyer; (b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the associated economic benefits will flow into the Company; and (e) the associated costs incurred or to be incurred can be measured reliably at the time of recognising revenue from the sales of goods. For domestic sales, the Group recognises revenue when goods are delivered to and accepted by the customers. For export sales, the Group recognises revenue when risk and rewards of exported goods transferred to customer in accordance with contractual terms about trade arrangements stated in sales contract and relevant regulations under International Rules for the Interpretation of Trade Terms (2010). If there are any special terms about risk transfer stated in sales contract, the relevant revenue is recognised in accordance with these terms.

(2) Revenue from rendering of services

Revenue from the rendering of services is recognised only when all of the following conditions are satisfied: (a) the amount of revenue and costs for the transaction involving the rendering of services can be measured reliably; (b) the associated economic benefits can flow into the Group; and (c) the stage of completion of the service can be measured reliably.

At the balance sheet date, the results of the labor service transaction can be reliably estimated, relevant service revenue is recognized according to the percentage of completion, and the percentage of completion is determined by the proportion of the cost incurred to the estimated total cost. Where the labor service transaction result cannot be estimated reliably, and if the service cost is expected to be compensated, the labor service revenue will be recognized according to the amount of labor cost that can be compensated, and the service cost incurred shall be carried forward. If the results of the labor service transaction cannot be estimated reliably and the estimated cost of labor services cannot be fully compensated, the labor costs incurred shall be recorded into the current profits and losses account, and the revenue from rendering labor services would not be confirmed.

(3) Revenue from interest income

Interest Income: When economic interest associated with the transaction can flow into the enterprise, and the revenue can be reliably measured, the interest income is recognised at the time when customers utilised our Group's funds and the effective interest rate.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate at which the future cash flows are discounted to the carrying amount of the net book value at the estimated maturity date of the financial instrument or within a reasonably short period. In estimating future cash flows, the Company will take into account all the terms of the contract for the financial instrument, but will not consider future credit losses. Calculating the effective interest rate will take into account transaction costs, discounted premiums, and all costs associated with actual interest payments between parties to the contract.

If the financial asset is impaired, the effective interest rate of the interest income is recognized according to the discounted interest rate of the measured future cash flow.

28. Government grants

(1) Judgment basis and accounting method of the government grants related to the assets

Government grants are monetary assets and non-monetary assets received by the Group from the government with no consideration, excluding the investments injection from the government in the capacity as an investor in the Group.

If a government grant is a monetary asset, it is measured at actual received amount; For the grants being allocated in accordance with fixed quotas, or if there is sufficient evidence at end of the period to show that the entity complies with the conditions of financial policies and is expected to receive supporting funds, the grants shall be measured at receivable amount; If a government grant is a non-monetary asset, it is measured at its fair value, and in the event the fair value cannot be acquired in a reliable way, it is measured at its nominal amount (RMB1).

The Group's government grants are classified as government grant related to an asset and government grant related to income. A government grant related to an asset represents the government grant obtained by the Group, which was used for acquiring long-term assets by purchasing or other approaches. A government grant related to income represents the government grant except for those related to an asset. If no assistance object is specified in the government documents, the Group shall determine based on the above principles.

A government grant related to an asset, is to offset the carrying amount of related assets, or recognised as deferred income. A government grant related to an asset shall be recognised as deferred income, and recognised in profit or loss in instalments over the useful life of the related asset in a reasonable and systematic way. A government grant measured at a nominal amount is recognised immediately in profit or loss for the current period. The undistributed deferred income balances of the related assets which were disposed, transferred, written-off or damaged before the useful life were transferred to the profits and losses of the disposal of assets for the current period.

For repayment of a government grant already recognised, if there is related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognised in profit or loss for the current period. If there is no related deferred income, the repayment is recognised immediately in profit or loss for the current period.

(2) Judgment basis and accounting method of the government grants related to the revenue

If the government grants related to income are compensation for related expenses or losses to be incurred in subsequent periods, they are recognized as deferred income, and will be recognized in profit and loss for the current period or used to offset with related costs. If the government grants related to income are compensation for related expenses or losses already incurred in enterprises, they are recognized immediately in profit and loss for the current period or used to offset with related costs.

29. Deferred income tax assets/deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities are calculated and recognised based on the difference between tax bases and carrying amounts of assets and liabilities (temporary differences). Deferred income tax asset is recognized for the deductible losses and tax credit that are deductible against taxable profit in subsequent years in accordance with the requirements under tax laws. No deferred tax liability is recognized for temporary difference arising from initial recognition of goodwill. No deferred income tax asset or deferred income tax liability is recognized for a temporary difference arising from initial recognition of asset or liability due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rates for the period when the asset is expected to be realized or the liability is expected to be settled.

Deferred income tax assets arising from deductible temporary difference are recognised to the extent that it is probable that taxable profit will be available to deduct from the deductible temporary difference.

30. Leasing

(1) Accounting for operating lease operating leases

(1) *Assets acquired under*

Rental expense for leasing assets under operating leases is recognised as related asset cost or profits and losses for the current period using the straight-line method over the lease term. The initial direct cost is directly accounted in profit or loss for the current period. Contingent rent is recognised as profit or loss for the current period as it incurred.

(2) *Assets leased out under operating leases*

Rental income derived from leasing out of assets under operation leases is recognised as income for the current period using the straight-line method over the lease term. The initial direct cost where the amount is larger is capitalised when incurred, and accounted for as profit or loss for the current period on the same basis as recognition of rental income over lease period. Otherwise, the costs are charged to profit or loss for the current period immediately. Contingent rental is accounted for as profit or loss for the current period in which it is incurred.

(2) Accounting for finance lease

(1) *Assets acquired under finance leases*

From the start date of the lease, comparing the fair value of the lease asset and the present value of the minimum lease payment, the lower one would be the entry value as assets acquired under finance leases. The unconfirmed financing expenses refers to the balance of the entry value as assets acquired under finance leases and the minimum lease payment; the amortization applied by effective interest method over the lease term. The minimum lease payment deducts the unconfirmed financing expenses account to long-term liabilities and the long-term liabilities due within one year.

The lease assets accrue depreciation during the working life if the ownership is reasonable confirmed before expiration. Otherwise, the lease assets would accrue depreciation in the shorter term between the lease term and its working life.

(2) *Assets leased out under finance assets*

From the start date of the lease, the entry value of receivable financing lease is the sum of the minimum lease payment and the initial direct expenses, and the unguaranteed residual value would be accounted; the balance of the total value of minimum lease payment, initial direct expenses and unguaranteed residual value and the sum of the present value is recognized as unrealized financing income, and distributed during the lease term. The current financing income is calculated by effective interest rate method.

The unguaranteed residual value would be reviewed at the end of each year. There is no adjustment while the unguaranteed residual value increases. If the evidence indicates that unguaranteed residual value has been decreased, the lease implicit interest rate would be recalculated. The caused decrease of net value of lease investment is accounted to profit or loss for the current period; the financing revenue would be recognized according to modified net value of lease investment and the lease implicit interest rate. The net value of lease investment refers to the balance of the minimum lease payment and unguaranteed residual value and unrealized financing income.

The recognized loss of unguaranteed residual value that might be recovered, which would be return in the original recognized amount of investment and recalculated lease implicit interest rate. The financing revenue would be recognized according to modified net value of lease investment and the lease implicit interest rate. It might be accounted to profit or loss for the current period when the contingent rental actual occurs.

31. Accounting for income tax

Income tax is accounted for using liability method. Income tax expenses represent the sum of current tax and deferred tax. Current tax and deferred tax relating to the transactions or matters that are directly recorded in shareholders' equity are deal with in shareholders' equity. Deferred tax arising from business combination is adjusted to the carrying value of goodwill. All other current tax and deferred tax are recognises in the profit or loss for the period.

The tax currently payable is the amount of tax payable to taxation bureau by the enterprises in respect of the transactions and matters of the current period calculated according to the taxation regulations. The deferred income tax is the difference between the balances of the deferred income tax assets and deferred tax liabilities that should be recognised using the balance sheet liabilities approach at the end of period and their balances originally recognised.

32. Other Significant Accounting Policies and Accounting Estimates

(1) Segment Information

The Group's operating segments are identified based on internal organization structure, management requirement and internal reporting system. The reporting segments are determined and the segment information is disclosed based on the operating segments.

Operating segment is a component of the Group that satisfies the following conditions simultaneously: the component can generate revenue and expenses in business activities; the management of the Group can appraise the operating performance of the component in order to allocation of resource and appraise the performance; and the Group can acquire accounting information such as the financial position, operating performance and cash flow of the component. If two or more than two operating segments carry similar economic characteristics, and satisfied certain condition, it could be combined into one operating segment.

(2) Other Significant Accounting Policies and Accounting Estimates

In preparation of the financial statements, the management of the Company need to use estimation and assumptions in accordance with historical experience and other factors, including rational expectations of future events. These estimations and assumptions may affect the application of accounting policy, assets, liabilities, revenue and expenses. Actual results may differ from these estimates. The management continues to evaluate the uncertain factors and key assumptions that affect estimates. The effects of changes on accounting estimates should be recognised in the current year or carry forward.

(1) Impairment loss of accounts receivable

Based on the current market conditions, the Group made an estimation on the aging of accounts receivable, financial situation of customers, and the historical experiences of guarantees (if any) provided by customers. The Group has conducted reassessment regularly to find whether the bad-debt provision for accounts receivable is sufficient. If all assumptions and estimation in the process of reviewing have changed, the change will affect bad-debt provision of accounts receivable in the changing process of assumptions.

(2) *Impairment provision for inventories*

The Group shall estimate the net realizable value of inventory regularly and confirm the loss on inventory valuation according to the difference between inventory cost and net realizable value.

The Group can estimate the net realizable value of inventory of raw materials, products and goods based on the amount obtained after the estimated selling price of similar goods is deducted by the costs, selling expenses and relevant taxes to be paid during completion. When the actual selling price or costs are different from the estimated ones, the management personnel shall perform corresponding adjustment on net realizable value. Therefore, the estimated results based on existing experience may be different from later actual results, and the book value of inventory in the balance sheet shall be adjusted. The amount for provision for decline in inventory may vary with the above-mentioned causes. The adjustment of inventory falling price reserves will affect the profits and losses within the estimated current period of change.

(3) *Provision for impairment of long-term assets*

When the Group carries out an impairment test on goodwill, fixed assets, intangible assets and other long-term assets, it shall calculate the recoverable amount of the portfolio of asset groups, asset group or assets (hereinafter collectively referred to as assets), and the present value of the assets' expected future cash flow shall be calculated using basic assumptions and the accounting estimation. When estimating the present value of assets' expected future cash flow, it mainly involves in estimates of assets' expected future cash flow, service life and discount rate. Therefore, the estimated results based on existing experience may be different from later actual results, and this difference may affect the profits and losses of current period of change.

(4) *Estimation on recognition of deferred tax assets*

For the estimation on deferred income tax assets, it is necessary to estimate on the taxable income and applicable tax rates in each future year. The achievement of deferred tax assets depends on whether the Company will obtain enough taxable income in the future or not. The withdrawing time of temporary difference and the change of future tax rate may also affect the income tax expense (revenue) and the balance of deferred income taxes. The change of above-mentioned estimation may affect the deferred income tax expenses of the changing period.

(5) *Useful life of fixed assets and intangible assets*

The Group review the useful life of fixed assets and intangible assets at the end of the year. The estimation of the useful lives involves management's estimation based on the historical experience on the similar assets and the industrial benchmark with expected renovation of technology. When the past estimates have been materially changed, the depreciation cost and amortization cost of future period shall be adjusted accordingly.

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33. Changes of Significant Accounting Policies and Accounting Estimates

(1) **Changes of Significant Accounting Policies**

☐ Applicable ☒ Not applicable

(2) **Changes of Significant Accounting Estimates**

☐ Applicable ☒ Not applicable

34. Others

There is no other statements of Group during the reporting period.

VI. Taxation

1. Main tax types and tax rates

Tax Type	Taxation basis	Tax rate
Value-added tax	Value-added tax payable is the balance after output tax minus import tax. Output tax is calculated at 17% of sales volume calculated under requirements of relevant tax laws. Export commodities are subject to taxation method of exemption, reduction and rebate	17%
Urban maintenance and construction tax	Value-added tax and business tax payables	7%
Business income tax	Taxable income	15%–25%
Education surtax	Value-added tax and business tax payables	3%
Local education surtax	Value-added tax and business tax payables	2%

Rate of income tax of the Company and subsidiaries are as follows:

Name of the Company and Subsidiaries	Income tax rate
The Company	15%
Shouguang Molong Logistic Company Limited ("Molong Logistic Company")	25%
MPM International Limited ("MPM Limited")	16.5%
Shouguang Baolong Petroleum Material Company Limited ("Shouguang Baolong")	25%
Shouguang Maolong New Materials Technology Development Company Limited ("Maolong New Materials")	25%
Shouguang Molong Electro-mechanical Equipment Company Limited ("Molong Electro-mechanical Equipment")	25%
Shouguang Maolong Old Metals Recycle Company Limited ("Maolong Recycle")	25%
Weihai Baolong Company Limited ("Weihai Baolong")	25%
Wendeng Baolong Recyclable Resource Company Limited ("Baolong Recyclable Resource")	25%
ShouGuang Maolong Micro-Credit Company Limited ("Maolong Micro-Credit")	25%
Shandong Molong Import & Export Company Limited ("Molong Import & Export")	25%

2. Tax Incentives

According to the "Notice Regarding the List of Shandong Province Proposed Advanced Technology Enterprise in 2015" (關於《於認定山東科興生物製品有限公司等889家企業為2014年高新技術企業的通知》) (Lu Ke Gao Zi [2015] No. 33) from Technology Office of Shandong Province, Finance Office of Shandong Province, State Administration of Taxation of Shandong Province, Local Taxation Bureau of Shandong Province, the Company was recognized as an Advanced Technology Enterprise and obtained a Certificate of Advanced Technology Enterprise No. GR201437000051. The Company was subject to an enterprise income tax rate of 15% since 1 January 2014 to 31 December 2016. The application of annual assessment of High-Tech Company is in the process.

VII. Notes to the Consolidated Financial Statements

1. Cash and cash equivalents

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Cash on hand	91,818.31	52,907.41
Cash in Bank	375,577,454.55	142,997,137.90
Other monetary assets	380,923,111.19	536,398,710.60
Total	756,592,384.05	679,448,755.91
Include: Fund deposited in overseas	637,561.48	70,961,819.80

Other explanation:

- (1) Fund deposited in overseas represented the cash and bank balance under the Hong Kong subsidiary, MPM Limited.
- (2) As at the end of the period, other fund held by the Group included bank acceptance security deposit of RMB346,523,111.19 (as at the beginning of the year: RMB503,098,710.60), borrowings and deposit for letter of credit of RMB12,000,000.00 (as at the beginning of the year: RMB12,000,000.00), deposit for letter of guarantee of RMB22,400,000.00 (as at the beginning of the year: RMB21,300,000.00).
- (3) Bank acceptance bills deposit with maturity date over 3 months amounted to RMB284,550,000.00 (as at the beginning of the year: RMB157,500,000.00), borrowings and deposit for letter of credit with maturity date over 3 months amounted to RMB34,400,000.00 (as at the beginning of the year: RMB12,000,000.00).
- (4) As at the end of the period, frozen deposit in bank of the Company is 0 (as at the beginning of the year: RMB1,450,000.00).

2. Derivative financial assets

☐ Applicable ☒ Not applicable

3. Bill receivable

(1) Classification of bills receivable

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance notes	30,530,487.40	15,353,982.45
Trade acceptance bill	13,145,290.40	8,050,000.00
Total	43,675,777.80	23,403,982.45

(2) Pledged bills receivable at the end of the period

Unit: RMB

Items	Pledged amount at the end of the period
Bank acceptance notes	5,900,000.00
Total	5,900,000.00

(3) The notes receivable that have been endorsed or discounted at the end of the period and have not yet expired at the balance sheet date:

Unit: RMB

Items	The amount has been terminated at the end of the period	The amount has not been terminated at the end of the period
Bank acceptance notes	492,879,224.55	—
Trade acceptance notes	4,000,000.00	—
Total	496,879,224.55	—

(4) As at the end of the period, bills receivable transferred to accounts receivable due to non-compliance of any bill drawer

As at the end of the period, the Group has no bills receivable transferred to accounts receivable due to non-compliance of any bill drawer.

4. Accounts Receivable

(1) Disclosure of Accounts Receivable by Category

Unit: RMB

Type	Balance at the end of the period					Balance at the beginning of the period				
	Carrying amount		Provision for bad and doubt fun debts		Book value	Carrying amount		Bad-debt provision		Book value
	Amount	Ratio	Amount	Proportion		Amount	Ratio	Amount	Proportion	
Accounts receivable individually significant for which provision for bad debts has been individually made	141,980,849.22	39.87%	81,105,311.49	57.12%	60,875,537.73	112,268,032.58	29.43%	67,648,771.75	60.26%	44,619,260.83
Accounts receivable for which provision for bad debts has been made on group basis by credit risk characteristics	203,108,052.49	57.04%	—	—	203,108,052.49	257,244,161.81	67.44%	—	—	257,244,161.81
Accounts receivable individually insignificant but for which provision for bad debts has been individually made	11,001,776.41	3.09%	9,157,852.38	83.24%	1,843,924.03	11,944,569.01	3.13%	9,659,376.67	80.87%	2,285,192.34
Total	356,090,678.12	100.00%	90,263,163.87	—	265,827,514.25	381,456,763.40	100.00%	77,308,148.42	—	304,148,614.98

Accounts receivable individually significant for which provision for bad debts has been individually made at the end of the period:

✓ Applicable □ Not applicable

Unit: RMB

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Accounts Receivable (Companies basis)	Balances at the end of the period			
	Accounts Receivable	Provision for bad debt	Provision Proportion	Provision reason
Peak Pipe and Supply, LLC	65,430,487.53	25,757,036.85	39.37%	Long outstanding and little refund with lower possibility of recovery
Shandong Coal Machinery Equipment Co., Ltd.	25,411,133.71	23,976,383.83	94.35%	Long outstanding and bad business condition of client with lower possibility of recovery
Fairmont International Oil Company	16,247,894.32	9,748,736.61	60.00%	Long outstanding and little refund with lower possibility of recovery
Dong'e Luen Hing Metal Products Co., LTD	13,398,450.00	10,718,760.00	80.00%	Aging over three years with lower possibility of recovery
Unix Techno Plus Ltd	13,235,611.83	2,647,122.37	20.00%	Long outstanding and difficult to recover
Wenlai Jinlong Investment Company Limited, Beijing Office	8,257,271.83	8,257,271.83	100.00%	Long outstanding and difficult to recover
Total	141,980,849.22	81,105,311.49	—	

Accounts receivable for which provision for bad debts has been made by age analysis in groups:

☐ Applicable ☒ Not applicable

Accounts receivable for which the provisions for bad debt has been made by balance percentage in groups:

☐ Applicable ☒ Not applicable

Accounts receivable for which the provisions for bad debt has been made by other methods in groups:

Companies	Carrying amount	Amount for bad debt	Provision Proportion	Provision Reason
SBI Company (USA)	4,316,839.40	4,316,839.4	100.00%	Aging over three years with lower possibility of recovery
Samasu International Oil Corporation	3,278,182.70	2,014,119.63	61.44%	Aging over three years with lower possibility of recovery
Metal One Corporation	1,176,372.05	722,764.49	61.44%	Aging over three years with lower possibility of recovery
South China Petrochemical Group	1,109,486.42	1,109,486.42	100.00%	Long outstanding with lower possibility of recovery
China Petroleum Technology Development Corporation	594,152.90	594,152.9	100.00%	Long outstanding with lower possibility of recovery
Zibo QiLin Electrical and Logistics Company Limited	244,795.51	244,795.51	100.00%	Long outstanding with lower possibility of recovery
Amy, Canadian companies	180,362.00	54,108.6	30.00%	Long outstanding and little refund with recovery at risk
Hanting Energy Resource Private Service Company Limited	101,585.43	101,585.43	100.00%	Long outstanding with lower possibility of recovery
Total	11,001,776.41	9,157,852.38	—	

(2) **Provision, recovery or reversal of the provision for bad debts during the period**

The amount of provision for bad debts during the period amounted to RMB 13,456,539.74; and the amount of recovery or reversal of the provision for bad debts during the period amounted to RMB 501,524.29.

Significant amounts of provision for bad debt recovered or reversed for the period:

Unit: RMB

Companies	Recovery or reversal amount	Recovery method
DIS of Indonesia	501,524.29	Payment for goods
Total	501,524.29	

(3) **Trade receivables actually written off during the period**

There is no trade receivables actually written off during the reporting period.

(4) **Top five trade receivables by ending balance collection of the borrower:**

Companies	Amount	Aging	Percentage of the total accounts receivable (%)	Closing balance of bad debt provision
Peak Pipe and Supply, LLC	65,430,487.53	Within 1 year	18.37	25,757,036.86
HeBei ZhongTai Steel Pipe Manufacture Co., Limited	573,300.00	Within 1 year	0.16	—
Shandong Coal Machinery Equipment Co., Ltd.	35,442,696.73	1 to 2 years	9.96	—
Ferrer Chemical Co., Ltd.	4,976,482.68	2 to 3 years	1.4	3,541,732.81
	20,434,651.03	3 to 4 years	5.74	20,434,651.03
	468,652.36	Within 1 year	0.13	—
	15,779,241.96	1 to 2 years	4.43	9,748,736.60
Shandong Ruimai Trading Company Limited	14,432,719.12	Within 1 year	4.05	—
Total	157,538,231.41	—	44.24	59,482,157.30

(5) **Account receivables that were derecognized due to the transfer of financial assets**

No

(6) **Amount of assets or liabilities for which accounts receivable is transferred but involvement continues**

As of 30 June 2017, the Group have no pledged accounts receivable.

(7) Aged Analysis

The credit term granted by the Group to its trade customers normally is one month, which may be extended to one year for selected customers.

The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	Unit: RMB	
	Closing Balance	Opening Balance
Within 1 year	192,806,575.58	133,332,880.20
1-2 years	47,245,189.72	140,552,467.28
2-3 years	21,646,013.7	27,581,981.50
3-4 years	4,129,735.25	2,681,286.00
Over 4 years	—	—
Total receivables	265,827,514.25	304,148,614.98

5. Loans and Advances

(1) Loans and advances details

Items	Amount at the end of the period	Amount at the beginning of the year
Gross loans and advances to customers	142,997,287.00	159,655,065.71
Less: Provision for loan losses	16,833,625.29	16,767,356.77
Net loans and advances	126,163,661.71	142,887,708.94

(2) Loans and advances by guarantee type are as follows:

Type	Balance at the end of the period	Balance at the beginning of the year
Collateralised loans	46,464,100.00	65,380,575.56
Pledged loans	10,700,000.00	3,314,000.00
Guaranteed loans	68,999,561.71	74,193,133.38
Total	126,163,661.71	142,887,708.94

(3) The five classification of loans and advances and provision for loan loss are as follows:

Type	Balance at the end of the period						
	Book balance		General provision for loan loss		Specific provision for loan loss		Provision for loan loss
	Amount	Ratio (%)	Amount	Proportion (%)	Amount	Proportion (%)	
Pass	55,324,000.00	38.69%	553,240.00	1	—	0	553,240.00
Special mention	35,731,146.00	24.99%	357,311.46	1	714,622.92	2	1,071,934.38
Sub standard	45,128,164.00	31.56%	451,281.64	1	11,282,041.00	25	11,733,322.64
Doubtful	6,813,977.00	4.77%	68,139.77	1	3,406,988.50	50	3,475,128.27
Loss	—	—	—	—	—	—	—
Total	142,997,287.00	100	1,429,972.87	—	15,403,652.42	—	16,833,625.29

Type	Balance at the beginning of the year						
	Book balance		General provision for loan loss		Specific provision for loan loss		Provision for loan loss
	Amount	Ratio (%)	Amount	Proportion (%)	Amount	Proportion (%)	
Pass	75,921,160.71	47.55	759,211.61	1.00	—	0.00	759,211.61
Special mention	31,794,218.00	19.92	317,942.18	1.00	635,884.36	2.00	953,826.54
Sub standard	45,739,687.00	28.65	457,396.87	1.00	11,434,921.75	25.00	11,892,318.62
Doubtful	6,200,000.00	3.88	62,000.00	1.00	3,100,000.00	50.00	3,162,000.00
Loss	—	—	—	—	—	—	—
Total	159,655,065.71	100.00	1,596,550.66	—	15,170,806.11	—	16,767,356.77

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(4) Classification by lender

Type	Balance at the end of the period				
	Book balance		Provision for loan loss		Net loan
	Amount	Ratio (%)	Amount	Proportion (%)	
Enterprise loan	79,060,000.00	55.29%	15,383,523.23	19.46	63,676,476.77
Personal loan	63,937,287.00	44.71%	1,383,833.54	2.17	62,553,453.46
Total	142,997,287.00	100.00%	16,767,356.77	—	126,229,930.23

Type	Balance at the beginning of the year				
	Book balance		Provision for loan loss		Net loan
	Amount	Ratio (%)	Amount	Proportion (%)	
Enterprise loan	90,555,947.71	56.72	15,383,523.23	16.99	75,172,424.48
Personal loan	69,099,118.00	43.28	1,383,833.54	2.00	67,715,284.46
Total	159,655,065.71	100.00	16,767,356.77	—	142,887,708.94

- (5) As at 30 June 2017, the Group's total overdue loans amounted to RMB115,206,764.00, the overdue situation is as follows:

Overdue by	Amount	Percentage of the total loans	Closing balance of provision for loan loss
>360 days	48,042,664.00	33.60%	13,940,436.89
180–360 days	22,819,100.00	15.96%	1,510,373.00
90–180 days	39,845,000.00	27.86%	612,070.00
<90 days	4,500,000.00	3.15%	135,000.00
Total	115,206,764.00	80.57%	16,197,879.89

6. Prepayments

(1) Prepayments by aging

Unit: RMB

Aging	Balance at the end of the period		Balance of the beginning of the period	
	Amount	Radio	Amount	Radio
Within one year	64,789,523.43	99.13%	37,002,644.98	99.89%
One to two years	550,961.34	0.85%	29,145.30	0.08%
More than three years	10,683.61	0.02%	10,683.61	0.03%
Total	65,351,168.38	—	37,042,473.89	—

- (2) Details of the top five ending balances of the advances to suppliers classified according to the payees:

Companies	Balance at the end of the period	Aging	Percentage of the Closing balance of prepayments
Shandong Luli Forging machinery Co. Ltd.	17,563,008.62	Within 1 year	26.87%
Shandong Yongfeng International Trading Company Limited	8,704,810.45	Within 1 year	13.32%
Shandong Zhisen E-commerce Co., Ltd.	4,726,347.28	Within 1 year	7.23%
Shouguang Xiangshun Economic & Trade Co., Ltd.	4,639,021.69	Within 1 year	7.10%
Linyi Xiangcheng Recycle Co., Ltd.	4,290,498.91	Within 1 year	6.57%
Total	39,923,686.95		61.09%

7. Interests Receivable

(1) Classification of interests receivable

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Fixed deposits	—	929,487.40
Interest on pledged deposits	1,910,039.04	5,054,586.55
Interest on loans and advance	2,212,836.78	2,212,836.78
Total	4,122,875.82	8,196,910.73

(2) Important interest on overdue

The above interest includes overdue loan interest within 90 days amounted to RMB23,108.13. There is no other overdue interest.

8. Other Receivables

(1) Disclosure of other receivables by categories

Unit: RMB

Type	Balance at the end of the period					Balance at the beginning of the period				
	Carrying balance		Provision for bad debts			Carrying balance		Provision for bad debts		
	Amount	Ratio	Amount	Proportion	Book value	Amount	Ratio	Amount	Proportion	Book value
Other receivable individually significant for which provision for bad debts has been individually made	35,391,821.96	52.63%	10,617,546.59	30.00%	24,774,275.37	35,391,821.96	53.27%	10,617,546.59	30.00%	24,774,275.37
Other receivable for which provision for bad debts has been made on group basis by credit risk characteristics	31,742,345.39	47.20%	—	—	31,742,345.39	30,929,079.87	46.55%	—	—	30,929,079.87
Other receivable individually insignificant but for which provision for bad debts has been individually made	122,119.25	0.17%	122,119.25	100.00%	—	122,119.25	0.18%	122,119.25	100.00%	—
Total	67,256,286.60	100.00%	10,739,665.84	—	56,516,620.76	66,443,021.08	100.00%	10,739,665.84	—	55,703,355.24

Other receivable individually significant for which provision for bad debts has been individually made at the end of the period:

☒ Applicable ☐ Not applicable

Unit: RMB

Other receivables (Company basis)	Other receivables	Provision for bad debt	Balance at the end of the period	
			Provision proportion (%)	Provision reason
JESORO OIL LTD	35,391,821.96	10,617,546.59	30.00%	Overdue with recovery at risk
Total	35,391,821.96	10,617,546.59	—	

Other receivable for which provision for bad debts has been made by age analysis in groups:

☐ Applicable ☒ Not applicable

Other receivable for which the provisions for bad debt has been made by balance percentage in groups:

☐ Applicable ☒ Not applicable

Accounts receivable for which the provisions for bad debt has been made by other methods in groups:

☒ Applicable ☐ Not applicable

Other receivable individually insignificant for which provision for bad debts has been individually made at the end of the period:

Companies	Book balance	Amount for bad debt	Provision	
			proportion (%)	Provision reason
Wang Lixue	40,000.00	40,000.00	100	Not recoverable due to long outstanding
Other Units	14,220.00	14,220.00	100	Not recoverable due to long outstanding
Other personal	67,899.25	67,899.25	100	Not recoverable due to long outstanding
Total	122,119.25	122,119.25	—	

(2) Provision, recovery or reversal of the provision for bad debts during the period

The amount of provision for bad debts during the period amounted to RMB 0.00; and the amount of recovery or reversal of the provision for bad debts during the period amounted to RMB 0.00.

(3) Other receivables actually written off during the period

There is no other receivables actually written off during the reporting period.

(4) Reclassification of other receivables by nature

Unit: RMB

Nature of payment	Book balance at the end of the period	Book balance at the beginning of the period
Current accounts	49,159,292.19	47,183,150.33
Individuals	1,281,554.41	1,374,430.50
Deposits	16,478,540.00	17,498,540.25
Others	336,900.00	386,900.00
Total	67,256,286.60	66,443,021.08

(5) Details of the top five ending balances of other receivables to suppliers classified according to the payees:

Unit: RMB

Companies	Nature of payment	Balance at the end of the period	Aging	Percentage of the closing balance of other receivables	Balance of bad debt at the end of the period
JESORO OIL LTD	Current account	35,391,821.96	2 to 3 years	52.62%	10,617,546.59
Shouguang City, Yang Kou Town Finance	Deposit for project development	14,530,000.00	3 to 4 years	21.60%	—
Shouguang City Center Yang Kou Zhen Financial Management Statistics	Current account	8,250,941.48	2 to 3 years	12.27%	—
Shaanxi Energy Chemical Exchange Limited	Bid bond	2,307,816.30	Within 1 year	3.43%	—
Wendeng High Town People's Government	Borrowing	1,500,000.00	2 to 3 years	2.23%	—
Total		61,980,579.74		92.16%	10,617,546.59

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(6) Receivables involving governmental subsidy

The Group has no other receivables involving governmental during the reporting period.

9. Inventories

The Company does not need to abide by the disclosure requirement in real state industry.

(1) Classification of inventories

Unit: RMB

Items	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for diminution		Book balance	Provision for diminution	
		in value	Book value		in value	Book value
Raw material	259,327,841.53	11,874,785.97	247,453,055.56	255,741,463.70	15,920,971.26	239,820,492.44
Work-in-progress	220,221,812.68	18,657,892.88	201,563,919.80	260,656,333.12	36,995,653.94	223,660,679.18
Goods in storage	329,173,097.73	21,658,432.53	307,514,665.20	332,603,185.00	32,187,279.31	300,415,905.69
Entrusted processing materials	9,073,656.12	1,318,577.34	7,755,078.78	6,155,672.39	1,318,577.34	4,837,095.05
Total	817,796,408.06	53,509,688.72	764,286,719.34	855,156,654.21	86,422,481.85	768,734,172.36

(2) Provision for impairment of inventories

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period		Decrease during the period		Balance at the end of the period
		Provisions	Others	Reversal of allowance or written-off		
				Others		
Raw material	15,920,971.26	—	—	4,046,185.29	—	11,874,785.97
Work-in-progress	36,995,653.94	—	—	18,337,761.06	—	18,657,892.88
Goods in storage	32,187,279.31	—	—	10,528,846.78	—	21,658,432.53
Entrusted processing materials	1,318,577.34	—	—	—	—	1,318,577.34
Total	86,422,481.85	—	—	32,912,793.13	—	53,509,688.72

(3) Capitalization of borrowing costs in the balance of inventories at the end of the period

Nil

(4) completed unliquidated assets from construction contracts at the end of the period

Nil

10. Other current assets

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Deductible input tax	129,394,054.28	109,948,611.66
Prepaid income tax	469,736.29	2,178,186.55
Other prepaid taxes	846,809.61	846,809.61
Total	130,710,600.18	112,973,607.82

11. Available-for-sale financial assets

(1) Analysis of Available-for-sale financial assets

Unit: RMB

Items	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Available-for-sale equity instruments	50,000.00	—	50,000.00	50,000.00	—	50,000.00
by cost	50,000.00	—	50,000.00	50,000.00	—	50,000.00
Total	50,000.00	—	50,000.00	50,000.00	—	50,000.00

(2) Analysis of available-for-sale financial assets by cost at the end of the period

Unit: RMB

Investee	Book balance				Provision for impairment				Shareholding in investee	Cash dividend for the period
	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period		
Shouguang Hand-in-hand Private Lending Service Center	30,000.00	—	—	30,000.00	—	—	—	—	—	—
Shouguang Association of Environmental Protection	20,000.00	—	—	20,000.00	—	—	—	—	—	—
Total	50,000.00	—	—	50,000.00	—	—	—	—	—	—

(3) Relevant details of the significant decline or non-temporary decline in the fair value of available-for-sale equity instruments without any provision for impairment

The Group's available-for-sales financial assets represent investment in external entities, there is no any indication of impairment, therefore no provision for impairment is made for available-for-sales financial assets.

12. Long-term Equity Investments

Unit: RMB

Investee	Balance at the beginning of the period	Additions	Reductions	Movement during the period						Balance at the end of the period	Balance of Provision for impairment at the end of the period
				Investment gains and losses recognised under the equity method	Adjustment on other comprehensive income	Other changes in equity	Cash dividend or profits declared	Provision of impairment	Others		
I. Joint-venture II. Associate Karamay Yalong Oil Pump Company Limited	2,707,572.57	—	—	—	—	—	87,000.00	—	—	2,620,572.57	—
Subtotal	2,707,572.57	—	—	—	—	—	87,000.00	—	—	2,620,572.57	—
Total	2,707,572.57	—	—	—	—	—	87,000.00	—	—	2,620,572.57	—

13. Fixed Assets

(1) Details of fixed assets

Unit: RMB

Items	Buildings	Machinery and equipment	Electronic and other equipment	Vehicles	Total
I. Original book value:					
1. Balance at the beginning of the period	1,091,091,207.13	3,120,695,863.93	118,800,790.72	16,951,090.85	4,347,538,952.63
2. Additions for the period	241,882.27	24,068,527.58	1,010,475.18	372,356.31	25,693,241.34
(1) purchase	241,882.27	24,068,527.58	1,010,475.18	162,466.90	25,483,351.93
(2) Transferred from construction in progress	—	—	—	209,889.41	209,889.41
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the period	—	878,563.15	833,798.82	1,176,796.57	2,889,158.54
(1) Disposal or retirement	—	878,563.15	833,798.82	1,176,796.57	2,889,158.54
4. Balance at the end of the period	1,091,333,089.40	3,143,885,828.36	118,977,467.08	16,146,650.59	4,370,343,035.43
II. Accumulated depreciation					
1. Balance at the beginning of the period	172,323,888.67	934,779,020.06	83,840,951.64	13,169,197.30	1,204,113,057.67
2. Additions for the period	25,783,899.34	91,793,763.41	3,179,701.05	489,875.72	121,247,239.52
(1) Provision	25,783,899.34	91,793,763.41	3,179,701.05	489,875.72	121,247,239.52
3. Reductions for the period	70,108.93	827,760.21	786,768.41	1,082,737.64	2,767,375.19
(1) Disposal or retirement	70,108.93	827,760.21	786,768.41	1,082,737.64	2,767,375.19
4. Balance at the end of the period	198,037,679.08	1,025,745,023.26	86,233,884.28	12,576,335.38	1,322,592,922.00
III. Provision for impairment					
1. Balance at the beginning of the period	4,986,478.28	71,865,919.03	—	—	76,852,397.31
2. Additions for the period	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions for the period	—	—	—	—	—
(1) Disposal or retirement	—	—	—	—	—
4. Balance at the end of the period	4,986,478.28	71,865,919.03	—	—	76,852,397.31
IV. Book value					
1. Book value at the end of the period	888,308,932.04	2,046,274,886.07	32,743,582.80	3,570,315.21	2,970,897,716.12
2. Book value at the beginning of the period	913,780,840.18	2,114,050,924.84	34,959,839.08	3,781,893.55	3,066,573,497.65

(2) Temporarily idle fixed assets

NIL

(3) Fixed assets with pending out certificate of ownership

Unit: RMB

Items	Book value	Reasons
140 rolled tube main workshop	4,948,222.27	Application in process
New dormitory building and staff dining hall in Weihai	4,598,462.34	Application in process
Molong Garden 7th floor	8,145,000.00	Application in process
Logistics Park Plant	8,967,034.22	Application in process
NO. 12 house down the street in Molong Garden 4th floor	3,552,500.04	Application in process
Electric-arc furnace main plant	63,126,747.78	Application in process
Steel scrap plant	6,967,860.81	Application in process
Comprehensive office building of Yangkou factory	8,500,000.00	Not handling
Staff dining hall of Yangkou factory	3,850,000.00	Not handling
Material depot No.1 of Yangkou factory	112,551,566.41	Not handling
Material depot No. 2 of Yangkou factory	109,287,086.73	Not handling
Power house of Yangkou factory	77,013,827.72	Not handling
SRV heat house of Yangkou factory	61,486,667.99	Not handling
Air separation station of Yangkou factory	4,791,247.33	Not handling
Sea water desalination of Yangkou factory	3,259,812.22	Not handling
Circulating water pump house of Yangkou factory	3,067,539.27	Not handling
Sludge disposal plant of Yangkou factory	3,019,200.00	Not handling
Circulating water pump house of Yangkou factory	1,252,427.00	Not handling

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14. Construction in Progress

(1) Details of Construction in Progress

Unit: RMB

Projects	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Employee technical development training centre	21,366,340.14	—	21,366,340.14	21,366,340.14	—	21,366,340.14
Electric-arc furnace project II	15,277,201.04	—	15,277,201.04	—	—	—
Others	11,514,246.04	—	11,514,246.04	10,213,013.85	—	10,213,013.85
Total	48,157,787.22	—	48,157,787.22	31,579,353.99	—	31,579,353.99

(2) Changes of major Construction in progress during the period

Unit: RMB

Projects	Budget amount	Balance at the beginning of the period	Increase during the period	Transferred to fixed assets during the period	Other reduction during the period	Balance at the end of the period	Ratio of accumulated contribution to the construction to budget	Construction Progress	Accumulated interest capitalised	Including: capitalized interest expenses during the period	Ratio of interest capitalised	Sources of fund
Employee technical development training centre	26,000,000.00	21,366,340.14	—	—	—	21,366,340.14	82.18%	55%	—	—	—	—
Arc furnace Phase II project	101,970,000.00	—	15,277,201.04	—	—	15,277,201.04	14.99%	30%	—	—	—	—
Total	127,970,000.00	21,366,340.14	15,277,201.04	—	—	36,643,541.18	—	—	—	—	—	—

(3) Details of provision for impairments of construction in progress during the period

There is no any indication of impairment at the end of the period, therefore no provision for impairment is made for construction in progress .

As at the end of the period, there is no restrictions on the right to own or use construction in progress due to pledge, guarantee or any other reason.

15. Intangible assets

(1) Details of Intangible assets

Unit: RMB

Items	Land use rights	Patent right	Non-patent technology	Software	Total
I. Costs					
1. Balance at the beginning of the period	461,627,176.49	2,541,868.11	364,466,588.43	770,036.72	829,405,669.75
2. Additions for the period	—	—	—	—	—
(1) Acquisition	—	—	—	—	—
(2) Internally research and development	—	—	—	—	—
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the period	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the period	461,627,176.49	2,541,868.11	364,466,588.43	770,036.72	829,405,669.75
II. Accumulated amortization					
1. Balance at the beginning of the period	47,664,377.99	2,228,564.66	295,562,206.17	770,036.72	346,225,185.54
2. Additions for the period	4,672,708.76	147,559.80	7,288,358.18	0.00	12,108,626.74
(1) Provision	4,672,708.76	147,559.80	7,288,358.18	0.00	12,108,626.74
3. Reductions for the period	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the period	52,337,086.75	2,376,124.46	302,850,564.35	770,036.72	358,333,812.28
III. Provision for Impairment					
1. Balance at the beginning of the period	—	—	33,968,375.45	—	33,968,375.45
2. Additions for the period	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions for the period	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the period	—	—	33,968,375.45	—	33,968,375.45
IV. Carrying values					
1. Carrying values at the end of the period	409,290,089.74	165,743.65	27,647,648.63	0.00	437,103,482.02
2. Carrying values at the beginning of the period	413,962,798.50	313,303.45	34,936,006.81	—	449,212,108.76

The internally generated intangible assets accounted for 6.33% of the balance of intangible assets as at the end of the period.

16. Research and Development expenditure

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
New model casing pipe	—	19,838,831.43	—	19,838,831.43

Other remarks:

Please refer to V. 20 this appendix for the division in the phase of research and development expenditures and the phase of development, the time and basis of capitalization of development phase.

At 30 June 2017, all new products' research and development work has not been completed.

17. Goodwill

(1) Original carrying value of goodwill

Unit: RMB

Investee of interim resulting in goodwill	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Business combination not under common control	142,973,383.21	—	—	142,973,383.21

(2) Provision for Impairment of goodwill

Unit: RMB

Investee of interim resulting in goodwill	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Business combination not under common control	116,290,000.00	—	—	116,290,000.00

Explanation for the process of goodwill impairment test, parameters and recognition method of goodwill impairment:

- (1) The Goodwill is generated from the acquisition shares of Maolong New Materials Company Limited not under common control in 2007. The acquisition constitutes a business combination not under common control.
- (2) The Group performs the impairment test on goodwill as stated in Note V.21.

18. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets not yet eliminated

Unit: RMB

Items	Balance at the end of the period		Balance at the beginning of the period	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Unrealized profits arisen from intra-group transactions	11,553,616.05	2,888,404.01	11,553,616.05	2,888,404.01
Deductible losses	2,308,109.89	577,027.47	2,308,109.89	577,027.47
Total	13,861,725.94	3,465,431.48	13,861,725.94	3,465,431.48

(2) Deferred tax liabilities not yet eliminated

Unit: RMB

Items	Balance at the end of the period		Balance at the beginning of the period	
	Taxable temporary difference	Deferred income tax assets	Taxable temporary difference	Deferred income tax assets
Long-term equity investments	15,237.51	3,809.38	15,237.51	3,809.38
Fixed assets	2,009,868.14	502,467.03	2,248,390.84	562,097.71
Intangible assets	27,880,900.78	6,970,225.19	28,252,782.84	7,063,195.70
Total	29,906,006.43	7,476,501.60	30,516,411.19	7,629,102.79

(3) Deferred income tax assets and deferred income tax liabilities presented on a net basis after off setting

Unit: RMB

Items	The balance of		The balance of	
	Offsetting between deferred income tax assets and liabilities at the end of the period	deferred income tax assets or liabilities after offsetting at the end of the period	Offsetting between deferred income tax assets and liabilities at the beginning of period	deferred income tax assets or liabilities after offsetting at the beginning of period
Deferred income tax assets	—	3,465,431.48	—	3,465,431.48
Deferred income tax liabilities	—	7,476,501.60	—	7,629,102.79

(4) Details of unrecognized deferred income tax assets are shown as follows:

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Deductible temporary differences	502,670,920.90	574,553,587.03
Deductible losses	631,370,491.23	774,977,903.44
Total	1,134,041,412.13	1,349,531,490.47

(5) Deductible losses of unrecognised deferred income tax assets will be expired by the years as specified below

Unit: RMB

Years	Amount at the end of the period	Amount at the beginning of the period	Notes
2018	44,289,763.04	42,072,215.21	—
2019	72,276,795.51	72,439,584.00	—
2020	261,203,047.19	140,000,203.04	—
2021	397,208,297.70	397,208,297.70	—
2022	38,218,215.27	—	—
Total	813,196,118.71	651,720,299.95	—

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19. Other non-current assets

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Prepayments for land use right	45,485,934.15	45,485,934.15
Prepayments for equipment and construction	1,878,174.80	2,980,424.80
Total	47,364,108.95	48,466,358.95

20. Short-term borrowings

(1) Classification of short-term borrowings

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Pledged borrowings	175,000,000.00	28,000,000.00
Guaranteed borrowings	97,744,000.00	149,370,000.00
Credit borrowings	1,241,464,800.02	1,364,921,489.30
Notes discounted and borrowings for letters of credit	638,500,000.00	794,550,628.00
Others	270,000,000.00	100,000,000.00
Total	2,422,708,800.02	2,436,842,117.30

Remarks for classification of short-term borrowings:

The guaranteed borrowings of RMB30,000,000.00 are provided by MaoLong New Material, MPM Limited's subsidiary to MPM Limited, and The guaranteed borrowings of RMB67,744,000.00 are provided by the Company to its subsidiary, MPM Limited.

The pledged borrowings derived from the Company's pledged borrowings through the land, property and sea certificates are provided to Shouguang Xinjing No 1 Investment Center (Limited Partnership).

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(2) Details of the outstanding overdue short-term borrowing

The outstanding overdue short-term borrowing is RMB0.00 at the end of the period.

21. Derivative financial liabilities

☐ Applicable ☒ Not applicable

22. Bills payable

Unit: RMB

Types	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	202,690,000.00	241,427,907.86
Total	202,690,000.00	241,427,907.86

At the end of the period, the Group had no outstanding overdue bills payable.

23. Accounts payable

(1) Details of accounts payable

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Material payment	593,145,886.18	572,669,029.83
Project equipment payment	326,426,454.07	328,932,567.92
Total	919,572,340.25	901,601,597.75

(2) The significant accounts payable with aging for more than one year as follows:

Unit: RMB

Items	Balance at the end of the year	Reasons for outstanding or carrying forward
Shandong Shouguang First Construction Co., Ltd.	29,062,363.88	Project funds
Shouguang Hongtai Construction and Installation Co., Ltd.	22,413,613.62	Project funds
Shandong Weifang Construction Group Corporation		
Shouguang Branch	13,965,632.00	Project funds
Hubei Metallurgical Construction Co. Ltd	12,390,227.00	Project funds
Zhejiang Changxing Strong Refractory Material Co., Ltd	10,152,603.85	Material accounts
Qingzhou TongBao Supplies Co., Ltd	9,735,087.37	Material accounts
Shandong Chi Da Machinery Co., Ltd	7,453,292.26	Material accounts
		Transportation
Shouguang Friendship Transportation Co., Ltd	7,438,632.61	funds
Shouguang Room Building Installation Co., Ltd	6,408,674.28	Project funds
Shandong Taikai Environmental Protection Technology Co. Ltd	5,954,000.00	Project funds
Total	124,974,126.87	—

(3) Aged Analysis

The credit term of trade payables is one year.

An aged analysis of the accounts payables as at the end of the reporting period, based on the invoice date, is as follows:

Unit: RMB

	Closing Balance	Opening Balance
Within 1 year	564,618,078.20	561,050,330.07
1-2 years	255,461,350.28	241,559,300.14
2-3 years	60,258,340.15	61,737,920.98
3-4 years	15,673,624.14	16,352,480.15
Over 4 years	23,560,947.48	20,901,566.41
Total accounts payables	919,572,340.25	901,601,597.75

24. Receipts in Advance

(1) Details of Receipts in advance

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Sales Income	82,790,084.84	73,674,754.30
Total	82,790,084.84	73,674,754.30

(2) Significant Receipts in advance aging over 1 years

Unit: RMB

Item	Balance at the end of the period	Reasons for outstanding or carrying forward
Curzon Consultants Corp.	1,346,843.53	Not yet shipped by contract provision
Total	1,346,843.53	—

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25. Employee remuneration payables

(1) Details of employee remuneration payables

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
I. Short-term remuneration	30,194,232.47	62,397,324.62	57,031,949.32	35,559,607.77
II. Retirement Benefit-Defined Contribution Plan	—	5,516,728.86	5,516,728.86	—
Total	30,194,232.47	67,914,053.48	62,548,678.18	35,559,607.77

(2) Short-term remuneration

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
1. Salaries, bonuses, allowance and subsidies	21,752,521.20	53,428,684.66	49,343,614.15	25,837,591.71
2. Staff welfare	—	4,967,488.78	4,967,488.78	—
3. Social insurance	—	2,510,250.57	2,510,250.57	—
Including:				
Medical insurance	—	2,088,325.39	2,088,325.39	—
Work injury insurance	—	141,735.36	141,735.36	—
Birth insurance	—	280,189.82	280,189.82	—
5. Union fund and staff education fund	8,441,711.27	1,490,900.61	210,595.82	9,722,016.06
Total	30,194,232.47	62,397,324.62	57,031,949.32	35,559,607.77

(3) Defined contribution plan

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
1. Basic pension insurance	—	5,310,708.19	5,310,708.19	—
2. Unemployment insurance	—	206,020.67	206,020.67	—
Total	—	5,516,728.86	5,516,728.86	—

26. Taxes Payable

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Value added tax	11,593,987.82	782,369.90
Enterprise income tax	2,086,465.47	1,702,488.31
Individual income tax	161,091.31	1,878,228.74
Urban maintenances and construction tax	344,094.90	464,919.37
Property tax	3,238,339.43	1,505,878.61
Land use tax	2,435,727.43	2,435,727.49
Educational surcharges	245,782.07	332,085.26
Local water conservancy construction funds	24,579.87	66,417.05
Stamp duty	97,334.66	610,280.50
Other	58,147.57	127,325.77
Total	20,285,550.53	9,905,721.00

Other notes :

At the end of the period, there is no Hong Kong Profits Tax payable included in taxes payable.

27. Interests Payable

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Interests for long-term borrowings repayable with interests accrued in installments	367,245.53	220,973.96
Short-term borrowings interests payable	1,752,439.27	3,495,141.95
Total	2,119,684.80	3,716,115.91

Details of significant overdue unsettled interest

As of 30 June of 2017, the Group has no overdue unsettled interest.

28. Other payables

(1) Other payables by nature

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Accrued energy charges	11,999,616.01	21,423,905.52
Deposits	10,055,877.74	7,869,545.87
Others	10,476,000.06	135,759.90
Total	32,531,493.81	29,429,211.29

(2) Significant other payables aging over one year

The Group has no significant other payables aging over one year.

29. Long-term borrowing

(1) Classification of Long-term borrowing

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Credit Loan	145,000,000.00	145,000,000.00
Total	145,000,000.00	145,000,000.00

Other note, including interest rate interval:

Interest rate detail: The Group's annual interest rate for the 2016 long-term borrowing is LPR rate plus 68.75 basis points, and the execution rate is 4.988% this year.

30. Deferred income

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Reasons
Government grants	6,954,855.00	—	—	6,954,855.00	—
Total	6,954,855.00	—	—	6,954,855.00	—

Government grant projects:

Unit: RMB

Liabilities items	Balance at the beginning of the period	Addition Grant during the period	Amount recognized in non-operating income during the period	Other Changes	Balance at the end of the period	Related to assets/ Related to revenue
Subsidy funds for infrastructure	6,954,855.00	—	—	—	6,954,855.00	Capital nature
Total	6,954,855.00	—	—	—	6,954,855.00	—

Other note:

According to Notice on Finance of Shouguang Molong Logistic Company Limited's Subsidy Funds for Infrastructure(Shangzhengfa [2016] No.3) issued by the People's government of Shangkou town, the Group received subsidy funds for infrastructure of RMB6,954,855.00 on 24 February 2016, and recognized the government grant as the government grant related to assets. The Group has not amortized yet during the period since the relevant infrastructure has not been completed.

31. Share Capital

Unit: RMB

	Balance at the beginning of the period	Movement for the year (increase/decrease) (+, -)					Balance at the end of the period
		New shares issued	Bonus issue	Shares transferred from reserve	Others	Sub-total	
Total shares	797,848,400.00	—	—	—	—	—	797,848,400.00

32. Capital Reserves

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Capital premium (share capital)	849,481,990.92	—	—	849,481,990.92
Other capital reserves	236,167.50	—	—	236,167.50
Total	849,718,158.42	—	—	849,718,158.42

33. Other comprehensive income

Unit: RMB

Items	Balance at the beginning of the period	Amount incurred during the period					Balance at the end of the period
		Amount incurred before income tax during the period	Less: amount of previously recognized other comprehensive income transferred to profit or loss in current period	Less: Income tax expense	Attributable to the parent company after tax	Attributable to the minority shareholders after tax	
II. Other comprehensive income to be reclassified into profit and loss subsequently	(3,092,433.84)	718,071.37	—	—	679,812.09	38,259.28	(2,412,621.75)
Difference in the translation of foreign currency financial statements	(3,092,433.84)	718,071.37	—	—	679,812.09	38,259.28	(2,412,621.75)
Total other comprehensive income	(3,092,433.84)	718,071.37	—	—	679,812.09	38,259.28	(2,412,621.75)

34. Special Reserve

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Production safety fee	—	6,517,390.75	6,517,390.75	—
Total	—	6,517,390.75	6,517,390.75	—

Other note, including movements and reasons during the period:

According to the Measures on the Withholding and Usage of Safety Production Fees of Enterprises (企業安全生產費用提取和使用管理辦法) (Chaiqi [2012] No.16) jointly issued by the Ministry of Finance and the State Administration of Work Safety, the Group record the production safety fee in accordance with the relevant requirement.

35. Surplus Reserve

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory surplus reserve	176,686,903.51	—	—	176,686,903.51
Total	176,686,903.51	—	—	176,686,903.51

36. General risk reserve

Items	Balance at the end of the period	Balance at the beginning of the period	Provision proportion
General risk reserve	11,236.91	11,236.91	See the note
Total	11,236.91	11,236.91	—

Note: the Company's subsidiary, Shouguang Mao Tong Micro-Credit Company shall make appropriation to general risk reserve in accordance with the relevant requirement of Notice on Strengthening Loan Classification Management for Micro-Credit Company to Improve Risk Provision(Lujinbanfa [2013] No.11) jointly issued by the Finance Bureau of Shandong Province and the Finance Office of Shandong Province on 15 March 2103.

37. Undistributed profit

Unit: RMB

Items	Current period	Last period
Undistributed profit before adjustment at the end of last period	(2,104,173.06)	—
Undistributed profits after adjustment at the beginning of the period	(2,104,173.06)	—
Add: Net profit attributable to the owners of the Parent Company for the period	7,020,723.65	—
Undistributed at the end of the period	4,916,550.59	—

Adjustments of undistributed profits at the beginning of the period:

- (1) The effect of the retrospective adjustments arising from Accounting Standards for Business Enterprises and their new related requirements on the undistributed profits as at the beginning of the period amounted to Nil.
- (2) The effect of changes in accounting policies on the undistributed profits as at the beginning of the period amounted to Nil.

- (3) The effect of corrections of significant accounting errors on the undistributed profits as at the beginning of the period amounted to Nil.
- (4) The effect of the change of the scope of combination under common control on the undistributed profits as at the beginning of the period amounted to Nil.
- (5) The effect of other adjustments on the undistributed profits as at the beginning of the period amounted to Nil.

38. Operating Revenue and Operating Costs

Unit: RMB

Items	Amounts for the reporting period		Amounts for the prior period	
	Revenue	Cost	Revenue	Cost
Main operation	1,208,356,543.99	1,243,972,365.46	755,588,808.11	823,181,696.99
Other operation	14,472,101.66	20,011,281.86	15,443,065.11	5,581,011.05
Total	1,222,828,645.65	1,263,983,647.32	771,031,873.22	828,762,708.04

39. Taxes and Surcharges

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
Urban maintenances and construction tax	1,433,344.83	1,920,857.60
Educational surcharges	1,023,817.73	1,372,041.15
Real estate tax	4,268,743.12	—
Land use tax	4,871,454.96	—
Vehicle and Vessel Tax	10,725.44	—
Stamp Duty	468,025.86	—
Business tax	152,531.18	262,426.64
Local water conservancy construction funds	85,372.03	274,408.22
Others	27,028.00	—
Total	12,341,043.15	3,829,733.61

40. Selling Expenses

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
Delivery expenses	23,227,037.44	11,392,246.53
Agency fees	478,009.67	630,408.79
Salary	1,786,193.62	1,733,178.31
Travelling expenses	349,884.53	183,398.18
Entertainment	1,214,653.03	1,281,530.66
Office expenses	117,797.69	108,010.78
Intermediate fees	397,652.85	13,374,013.90
Depreciation charge	645,878.63	648,876.17
Others	732,885.51	2,527,022.85
Total	28,949,992.97	31,878,686.17

41. Administrative expenses

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
Amortisation of intangible assets	12,108,626.74	19,272,055.43
Taxes	—	7,735,198.68
Salary and Staff welfare expenses	9,030,773.36	8,082,687.82
Depreciation expenses	5,502,807.36	11,025,211.69
Machinery material consumption	1,295,838.48	1,283,451.69
Research and development fees of new products	1,286,004.58	1,397,712.32
Intermediate fees	5,047,414.80	1,588,724.31
Electric charges	566,443.73	481,463.86
Entertainment	640,578.40	662,755.69
Environmental costs	25,644.91	801.02
Board of directors' expenses	711,134.52	641,477.62
Transportation fees	262,281.71	152,691.55
Repair charge	344,896.79	652,439.24
Delivery expenses	87,662.16	8,990.16
Premiums for property insurance	93,440.36	71,627.95
Travelling expenses	212,736.44	141,166.81
Publicity expenses	15,562.75	117,405.66
Water charge	391,513.66	152,451.71
Safety production costs	1,157,901.35	1,027,055.46
Others	1,472,444.62	648,860.51
Total	40,253,706.72	55,144,229.18

42. Finance Costs

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
Interest expenses	36,348,364.53	40,997,581.13
Less: Capitalized interest expenses	—	(23,050,200.37)
Less: Interest income	(3,621,643.53)	(9,420,595.66)
Foreign exchange difference	4,549,473.06	(11,610,293.59)
Other	25,073,280.74	25,713,830.89
Total	62,349,474.80	22,630,322.40

43. Loss on impairment of assets

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
I. Bad debt loss	12,955,015.45	24,442.90
XIV. others	66,268.52	—
Total	13,021,283.97	24,442.90

44. Non-operating Income

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period	Amounts credited to non-recurring profit or loss for the current period
Total income on disposal of non-current assets	59,465,670.89	—	—
Included: Income on disposal of fixed assets	652,261.22	—	—
Income on disposal of intangible assets	58,813,409.67	—	—
Government grants	150,118,600.00	10,131,155.00	—
Punishment income	2,073,385.33	260,324.10	—
Total	211,657,656.22	10,391,479.11	—

Government grants included in profit and loss for the current period:

Unit: RMB

Subsidy items	Issuing body	Reason for issuing the subsidies	Nature	Subsidy influence this year's profit and loss	Special subsidy	Amounts for the reporting period	Amounts for the prior period	Related to assets/ Related to income
Government subsidies	ShouGuang bureau of finance	subsidy	Subsidy obtained for meeting the investment promotion policies or other supportive policies of the local government	Yes	No	150,118,600.00	8,323,155.00	Related to income
Deferred income amortized	Bureau of Finance of ShouGuang	subsidy	Subsidy obtained for engaging in specific sectors and industries encouraged and supported by the state (lawfully obtained according to national policies)	Yes	No	—	1,808,000.00	Related to assets
Total	—	—	—	—	—	150,118,600.00	10,131,155.00	—

Other notes:

Note 1: According to the Weifang Science and Technology Reward Method (Wei-Zheng-Fa [2014] No 14), the Company received a award of RMB10,000.00 on January 25, 2017.

Note 2: According to the Weifang Special Fund Management Method for Patent, the Company received a patent subsidy for the year 2016 of RMB4,600.00 on April 24, 2017.

Note 3: According to the Weifang Special Fund Management Method for Patent, the Company received a patent creation subsidy of RMB4,000.00 on June 8, 2017.

Note 4: According to the Notice on Cultivation and Self-Service of Leading Intellectual Property Enterprise in 2017 issued by the Intellectual Property Office of Shouguang, the Company received funds for cultivation of leading enterprise of RMB100,000 on June 22, 2017.

Note 5: According to the Notice on Finance of Incentives and Subsidies to Molong Petroleum(Shou Chai Yu Zhi [2017] No.578), the Company received incentives and subsidies for energy conservation and emission reduction of RMB150,000,000 from the Ministry of Finance on June 30, 2017.

45. Non-operating Expenses

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period	Included in the current amount of non- recurring gains and losses
Total loss on disposal of non-current assets	83,620.83	63,847.59	—
Including: Loss on disposal of fixed assets	83,620.83	63,847.59	—
Donations to external party	—	1,000.00	—
Others	7,559,785.19	23,036.00	—
Total	7,643,406.02	87,883.59	—

46. Income Tax Expenses

(1) Income tax expenses list

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
Current income tax expenses	741,928.20	3,421,862.63
Deferred income tax expenses	(152,601.19)	4,146,835.32
Total	589,327.01	7,568,697.95

(2) Reconciliation between accounting profit and income tax expenses

Unit: RMB

Items	Amounts for the reporting period
Total profit	5,943,746.92
Income tax expense calculated at statutory/the applicable tax rate	901,502.32
Effect of different tax rates applicable to subsidiaries	(15,359,386.91)
Effect of utilisation of previously unrecognised deductible loss on deferred income tax assets	15,143,661.95
Additional deduction for qualified research and development expenses	(96,450.35)
Income tax	589,327.01

47. Other comprehensive income

Refer to note VII.34 for details.

48. Projects of cash flow statements

(1) Other cash received relating to operating activities

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
Government grants	150,118,600.00	10,131,155.00
Interest income	3,621,643.53	9,420,595.66
Decrease in acceptance note deposits	—	20,852,603.69
Decrease in restricted fixed deposits	1,450,000.00	—
Others	2,483,044.76	15,178,188.33
Total	157,673,288.29	55,582,542.68

(2) Other cash paid relating to operating activities

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
Delivery expenses	25,413,022.56	11,401,236.69
Development fees for new products	1,504,625.36	1,397,712.32
Consumable	1,603,208.00	1,496,687.33
Agency fees	491,161.95	1,271,886.41
Travelling fees	1,020,009.82	662,208.92
Intermediary fees	6,525,574.30	14,962,738.21
Repair expenses	406,709.83	665,646.92
Water and electricity expenses	1,120,810.15	633,915.57
Entertainment	1,855,231.43	1,944,286.35
Increase in acceptance note deposits	127,050,000.00	—
Increase in restricted fixed deposit	—	108,577,550.70
Others	13,830,868.76	16,452,917.45
Total	180,821,222.16	159,466,786.87

(3) Other cash received relating to financing activities

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
Acceptance discount	—	693,033,313.00
Domestic letter of credit discount	—	88,398,000.00
Total	—	781,431,313.00

(4) Other cash paid relating to financing activities

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
Increase in security deposit for letter of guarantee and letter of credit	22,400,000.00	37,350,000.00
Security deposit for discounted note	—	187,500,000.00
Accept discount interest and letter of credit discounted cost	—	22,119,315.00
Total	22,400,000.00	246,969,315.00

49. Additional information for cash flow statement

(1) Additional information for cash flow statement

Unit: RMB

Items	Amounts for the reporting period	Amounts for the prior period
1. Reconciliation of net income to cash flow of operating activities:	—	—
Net profit	5,354,419.91	(168,503,351.51)
Add: Provision for impairment of asset	13,021,283.97	24,442.90
Depreciation of fixed assets, oil and gas assets and productive biological assets	121,247,239.52	90,485,006.81
Amortisation of intangible asset	12,108,626.74	19,272,055.43
Amortisation of long-term unamortized expenses	—	170,940.19
Loss on disposal of fixed asset, intangible asset and other long-term asset	(59,465,670.89)	—
Loss on retirement of fixed assets	83,620.83	5,403.92
Finance costs	61,172,484.71	(13,241,428.50)
Decrease in deferred income tax assets	—	4,112,331.78
Increase in deferred tax income liabilities	—	199,489.78
Decrease in inventories	4,447,453.02	110,747,020.62
Decrease in operating receivables	(281,939,406.37)	(74,470,999.87)
Increase in operating payables	165,363,720.12	(76,258,590.05)
Others	—	(1,808,000.00)
Net cash flows generated from operating activities	41,393,771.56	(109,265,678.50)
2. Significant investing and financing activities not involving cash receipt or payment:	—	—
3. Changes in cash and cash equivalents:	—	—
Balance of cash at the end of the period	437,642,384.05	386,589,947.64
Less: Balance of cash at the beginning of the period	508,498,755.91	218,309,025.51
Net increase in cash and cash equivalents	(70,856,371.86)	168,280,922.13

(2) Cash and cash equivalents

Unit: RMB

Items	Balance as at the end of the period	Balance as at the beginning of the period
I. Cash	437,642,384.05	508,498,755.91
Including: Cash on hand	91,818.31	52,907.41
Bank deposit available for payments at any moment	375,577,454.55	141,547,137.90
Other cash and cash equipments available for payments at any moment	61,973,111.19	366,898,710.60
Balance of cash and cash equivalent at the end of the period	437,642,384.05	508,498,755.91
Including: Cash and cash equivalent that parent company or subsidiary corporation is limited to use.	318,950,000.00	170,950,000.00

Other description:

Bank acceptance bills deposit with maturity date over 3 months amounted to RMB284,550,000.00, and borrowings and deposit for letter of credit with maturity date over 3 months amounted to RMB34,400,000.00.

50. Assets with title or use right restrictions.

Unit: RMB

Items	Book value at the end of period	Limitation reason
Monetary capital	318,950,000.00	Security deposit with maturity date over 3 months
Notes receivable	5,900,000.00	Frozen due to lawsuit
Fixed assets	80,529,883.01	Used for pledged loan
Intangible assets	72,797,779.76	Used for pledged loan
Total	478,177,662.77	—

51. Foreign Currency Projects

(1) Foreign Currency Projects

Unit: RMB (unless otherwise stated)

Items	Balance of foreign currency at the end of the period	Exchange rate	Equivalent to RMB at the end of the period
Include: USD	2,045,453.62	6.7744	13,856,721.00
EUR	1,775.15	7.7496	13,756.70
HKD	5,527.90	0.8679	4,797.66
Include: USD	19,486,814.37	6.7744	132,011,475.27
EUR	228,263.45	7.7496	1,768,950.43
Other receivables			
Include: USD	5,101,891.59	6.7744	34,562,254.39
Short-term borrowings			
Include: USD	17,000,000.00	6.7744	115,164,800.00
Other accounts payable			
Include: USD	25,230.08	6.7744	170,918.65
Interest payable			
Include: USD	18,083.33	6.7744	122,503.73
Accounts payable			
Include: USD	1,151,410.30	6.7744	7,800,113.94
Receivables in advance			
Include: USD	7,010,432.44	6.7744	47,491,473.52

- (2) Descriptions of foreign business entity (including those that are considered important) should include disclosure of: the overseas principal place of business of the foreign business entity; the reporting currency and the basis for using that currency; the reason(s) for the change of reporting currency.

The registered and principal place of business of MPM Limited, a subsidiary which is owned by the Company as to 90% of its shareholdings and voting rights, is in Hong Kong; its reporting currency is USD.

VIII. Change in scope of consolidation

The range of consolidation of the Company in current period has not changed.

IX. The equity in other entities

1. Interests in subsidiaries

(1) List of subsidiaries

Name of subsidiaries	Principal place of operation	Place of incorporation	Nature of business	Shareholding (%)		Method of acquisition
				Direct	Indirect	
MPM Limited	Hong Kong	Hong Kong	Trade	90.00%	0.00%	Subsidiaries acquired through business consolidation not uncommon control
Maolong Machinery	Shouguang	Shouguang	Manufacturing	100.00%	0.00%	Subsidiaries acquired through business consolidation not uncommon control
Molong Electro-machinery Equipment	Shouguang	Shouguang	Manufacturing	0.00%	100.00%	Subsidiaries acquired through business consolidation not uncommon control
Baolong Recyclable Resource	Weihai	Weihai	Trade	0.00%	100.00%	Subsidiaries acquired through business consolidation not uncommon control
Maolong Recyclable	Shouguang	Shouguang	Trade	10.00%	90.00%	Subsidiaries acquired through business consolidation not uncommon control
Shouguang Baolong	Shouguang	Shouguang	Manufacturing	70.00%	0.00%	Subsidiaries acquired through investment
Weihai Baolong	Weihai	Weihai	Manufacturing	61.54%	38.46%	Subsidiaries acquired through business consolidation not uncommon control
Molong Logistic Company	Shouguang	Shouguang	Service	100.00%	0.00%	Subsidiaries acquired through investment
Molong Import&Export Company	Shouguang	Shouguang	Import and export	100.00%	0.00%	Subsidiaries acquired through investment
Maolong Mico-credit	Shouguang	Shouguang	Financial industry	0.00%	50.00%	Subsidiaries acquired through business consolidation not uncommon control

(2) Significant Non-wholly Owned Subsidiaries

Unit: RMB

Name of subsidiaries	Minority shareholders Proportion (%)	Profits and losses attributable to minority shareholders for the period	Dividends declared to minority shareholders for the period	Balance of equity to minority shareholders at the end of the period
Shouguang Baolong	30.00%	(2,961,471.03)	—	(13,421,540.56)
Maolong Micro-credit	50.00%	1,058,141.51	—	78,312,255.76

(3) Principal Financial information of Significant Non-wholly Owned Subsidiaries

Unit: RMB

Name of subsidiaries	Balance at the end of the period				Balance at the beginning of the period			
	Current Assets	Non-current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Total Liabilities	Current Assets	Non-current Assets
Shouguang Baolong	1,081,798,977.52	496,481,026.99	1,578,280,004.51	1,652,942,463.19	—	1,652,942,463.19	1,102,559,128.93	440,668,048.66
Maolong Micro-credit	146,462,332.46	11,384,030.40	157,846,362.86	1,221,851.35	—	1,221,851.35	150,013,433.80	11,502,326.12
							161,515,759.92	7,007,531.41

Unit: RMB

Name of subsidiaries	Amounts for the reporting period				Amounts for the prior period			
	Turnover	Net profit	comprehensive income	Total	Turnover	Net profit	comprehensive income	Total
Shouguang Baolong	523,513,543.71	(9,871,570.11)	(9,871,570.11)	(50,037,423.60)	370,868,492.66	(81,764,418.82)	(81,764,418.82)	14,472,021.97
Maolong Micro-credit	3,059,049.65	2,116,283.00	2,116,283.00	19,685,879.22	6,103,658.98	3,457,138.41	3,457,138.41	(26,056,759.64)

(4) Significant restrictions on use of assets and settlement of debts of corporate group

No.

(5) Financial or other support for structured entity that brought into combined financial statement

No.

Management analysis

Molong Group holds 50% equity in Maolong Micro-credit, While other investors are natural person with the shareholding proportions of 6.67% to 10%, respectively, who do not involve in the relative activities of Micro-credit. The carrying voting rights held by the Group is enough to lead the relative activities of Micro-credit, thus it is considered that Molong Group have control over Micro-credit.

2. Equity in Joint Ventures or Associates

(1) Significant Joint Ventures or Associates

Name of Joint Ventures and Associates	Principal place of operation	Place of registration	Business nature	Shareholding (%)		Accounting treatment for investments in joint ventures or associates
				Direct	Indirect	
Yalong Oil Pump Company Limited	Karamay, Xinjiang	Karamay, Xinjiang	Manufacturing	0.00%	30.00%	Equity method

(2) Principal financial information of significant associates

		Unit: RMB
	Balance at the end of the period/Amounts for the reporting period Yalong Oil Pump Company Limited	Balance at the beginning of the period/Amounts for the prior period Yalong Oil Pump Company Limited
Current assets	7,690,259.09	12,422,030.48
Non-current assets	8,734,909.13	8,811,820.26
Total assets	16,425,168.22	21,233,850.74
Current liabilities	1,696,348.19	5,620,784.34
Non-current liabilities	6,716,731.88	6,716,731.88
Total liabilities	8,413,080.07	12,337,516.22
Shareholders' interest attributable to parent Company	8,012,088.15	8,896,334.52
Share of net assets on a pro rata basis	2,403,626.45	2,668,900.36
Book value of the investment to associates	2,605,335.06	2,707,572.57
Turnover	1,080,182.92	1,612,420.48
Net profit	(594,246.37)	(515,234.29)
Total comprehensive income	(594,246.37)	(515,234.29)
Dividend received from the associates for the year	87,000.00	—

Other note:

(3) Description of the major restrictions on the capacity of Joint Ventures or Associates Transferred Capital to the Company

There is no any major restriction on the capacity of Associates transferred Capital to the Company. There is no contingent liabilities related to the investment of Associates.

(4) Major losses suffered by Joint Ventures of Associates

Joint Ventures or Associates did not suffer any major losses.

(5) Contingent liabilities relating to the investment of Joint Ventures of Associates

There is no contingent liabilities related to the investment of Associates.

3. *Rights and interests that have not been incorporated into the main body of the consolidated financial statement*

The Group does not have any rights and interests that have not been incorporated into the main body of the consolidated financial statement.

X. Risks associated with financial instruments

Major financial instruments of the Group include borrowings, accounts receivable and accounts payable. Detailed descriptions of these financial instruments are set out in Note V.10. Below are the risks associated with such financial instruments and the risk management policies adopted by the Group to mitigate such risks. The management of the Group manages and monitors such risk exposures to ensure such risks are contained within a prescribed scope.

The Group engages in risk management with the aim of achieving an appropriate balance between risk and return, where the negative effects of risks against the Group's operating results are minimized, in order to maximize the benefits of shareholders and other stakeholders. Based on such objective in risk management, the underlying strategy of the Group's risk management is to ascertain and analyze all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

(1) *Market risks*

(1) Foreign exchange risks

Foreign exchange risk represents risks of loss incurred as a result of changes in exchange rate. The Group is mainly exposed to foreign exchange risks in connection with USD, HKD and EUR; except for the Company and its subsidiaries MPM Limited of which entered purchases and sales in USD, HKD and EUR; other business activities of the principal operations of the Group are settled in RMB. On 30 June 2017, except for the USD balances in assets and liabilities, odd monies in EUR and balances in HKD as set out below, all the balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from assets and liabilities in such USD balances may affect the operating results of the Group.

Items	30 June 2017	31 December 2016
Monetary capital — USD	2,045,453.62	178,686,828.26
Monetary capital — EUR	1,775.15	12,970.66
Monetary capital — HKD	5,527.90	8,089.80
Monetary capital — Yen	—	105,920,725.17
Receivables — USD	19,486,814.37	189,446,631.66
Receivables — EUR	228,263.45	1,667,875.38
Other receivable — USD	5,101,891.59	35,391,821.96
Short-term borrowing — USD	17,000,000.00	463,322,230.00
Payables — USD	1,151,410.30	4,507,985.79
Other payables — USD	25,230.08	175,021.06
Receivables in advance — USD	7,010,432.44	26,282,523.44
Interest payable — USD	18,083.33	2,068,651.21

The Group pays close attention to the effect of foreign currency changes on the Group.

The Group has always placed its concern on the research of foreign exchange risk management policies and strategies, and maintain close co-operation with financial institutions engaging in foreign exchange business, and arrange favourable settlement terms in contracts to reduce foreign exchange risk. Meanwhile, with the continuous increase in the proportion of international market, if risks beyond the control of the Group, such as the appreciation of Renminbi, the Group will mitigate such risk via suitable adjustment of sales strategies.

(2) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the floating rate. The Group's interest rate risk arises from bank borrowings, bond payable and interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions.

The Company design rationally credit lines, various credit line and the term of credit lines through the establishment of good relations between banks and enterprise to ensure sufficient bank line of credit and meet the Company's various types of needs for short-term financing. Meanwhile, the Company reduce rationally the risk of interest rate fluctuations by shortening the duration of the borrowings and seizing advantages from early repayment terms.

(3) Other price risk

The Groups sells metal products at market price so as to be influenced by fluctuation in selling price.

(2) Credit risk

As at 30 June 2017, the biggest credit risk exposure that may cause financial loss to the Group mainly derived from the fact that the other party of the contract, to which the Company is also a party, could not fulfil their obligations and caused loss to the Group's financial assets, which includes:

The book value of the financial asset which has been confirmed in the consolidated balance sheet; in respect of financial instruments that are measured by fair value, the book value reflects its risk exposure, but not its biggest risk exposure, the biggest risk exposure will change as the future fair value changes.

In order to minimize credit risk, our Group carefully assesses and formulates the credit limit of our customers, and executes other monitoring procedures to ensure that necessary measures are taken to recover loans that are overdue. Furthermore, on every balance sheet date, our Group scrutinizes the status of each and every account receivable to ensure that provisions are made for bad debts that cannot be recovered. As a result, the management considers that the credit risk borne by our Group has already been substantially reduced.

The Group only deposits cash and cash equivalents into banks with relatively high level of credit rating; as such the credit risk of cash and cash equivalents is low.

The Group has adopted necessary policies to ensure that all the trade customers have good credit history. Apart from the top five accounts receivable, the Group has no other significant concentration of credit risk.

The aggregate sum of the top five account receivables amounts to RMB157,538,231.41.

(3) Liquidity risk

Liquidity risk refers to the risk that the Group is unable to fulfill its financial obligation before the due date. The Group manages liquidity risks by ensuring that it has sufficient cash liquidity to meet its debt liabilities so that there would not be unacceptable financial loss or loss of goodwill. The Group analyze regularly the structure and term of liabilities to ensure sufficient capital. The management of the Group monitors the utilization of bank borrowings and ensures compliance with loan covenants. At the same time, the Group has approached a number of financial institutions in relation to financing options to ensure that the Group maintains a line of credit in order to lower liquidity risk.

Bank loan is regarded as the Company's main capital source. On 30 June 2017, there is still bank loan limit of RMB1,281,000,000 (30 June 2016: RMB 1,627,400,000.00) which is not used. Among which, the unused short-term bank loan limit is RMB1,281,000,000 (30 June 2016: RMB 1,627,400,000.00)

Maturity analysis of financial assets and financial liabilities of the Group based on contractual undiscounted cash flow, is set out as follows:

During the reporting period:

Items	Within 1 year	1–2 years	2–5 years	Over 5 years	Total
Financial assets					
Monetary capital	756,592,384.05	—	—	—	756,592,384.05
Bills receivable	43,675,777.80	—	—	—	43,675,777.80
Accounts receivable	265,827,514.25	—	—	—	265,827,514.25
Loans and advances	126,163,661.71	—	—	—	126,163,661.71
Interest receivable	4,122,875.82	—	—	—	4,122,875.82
Other receivables	56,516,620.76	—	—	—	56,516,620.76
Financial liability					
Short-term borrowings	2,422,708,800.02	—	—	—	2,422,708,800.02
Bills payable	202,690,000.00	—	—	—	202,690,000.00
Accounts payable	919,572,340.25	—	—	—	919,572,340.25
Other payables	32,531,493.81	—	—	—	32,531,493.81
Interest payable	2,119,684.80	—	—	—	2,119,684.80
Long-term borrowings	—	145,000,000.00	—	—	145,000,000.00

Last year:

Items	Within 1 year	1–2 years	2–5 years	Over 5 years	Total
Financial assets					
Monetary capital	679,448,755.91	—	—	—	679,448,755.91
Bills receivable	23,403,982.45	—	—	—	23,403,982.45
Accounts receivable	304,148,614.98	—	—	—	304,148,614.98
Loans and advances	142,887,708.94	—	—	—	142,887,708.94
Interest receivable	8,196,910.73	—	—	—	8,196,910.73
Other receivables	55,703,355.24	—	—	—	55,703,355.24
Financial liability					
Short-term borrowings	2,436,842,117.30	—	—	—	2,436,842,117.30
Bills payable	241,427,907.86	—	—	—	241,427,907.86
Accounts payable	901,601,597.75	—	—	—	901,601,597.75
Other payables	29,429,211.29	—	—	—	29,429,211.29
Interest payable	3,716,115.91	—	—	—	3,716,115.91
Long-term borrowings	—	145,000,000.00	—	—	145,000,000.00

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XI. Disclosure of Fair Value

During the reporting period, the Group does not have assets and liabilities measured at fair value.

XII. Related Party and Related Party Transactions

1. Parent company of the Group

The ultimate controlling party of the Company is Zhang En Rong. As at 30 June 2017, Mr. Zhang En Rong owned 29.53% voting shares in the Company, and was the controlling shareholder and the ultimate controlling party of the Company.

2. Subsidiaries of the Group

Details of the subsidiaries of the Group are listed on note IX.1.

3. Joint Ventures and Associates of the Company

Details of joint ventures or associates that are important to the Company are listed on note IX.2.

Details of connected transactions entered into between the Company and associates or joint ventures in the reporting period or those that were carried forward from the previous reporting period are as follows:

Name of joint venture or associate	Relationship with the Company
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Yalong Oil Pump Company Limited	Associate
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4. Details of other related party

The Company have no details of other related parties.

5. Related party transactions

(1) Related party transaction of purchase and sale commodity, offer and accept labour service

Goods purchased and Service rendered

Unit: RMB

Name of related party	Related party transactions	Amount for the reporting period	Amount for the prior period
Yalong Oil Pump Company Limited	Oil well pumping and accessories	612,386.42	1,124,953.28
Shouguang Molong Culture Communication Co., Ltd	Switch cabinets, casing pipe and accessories	—	28,207.02

(2) Related party lending funds

Unit: RMB

Related party	Loan amount	Start date	End date	Note
Inter				
Zhang Yun San	60,000,000.00	1st Dec 2016	20th Dec 2017	Interest Free
Zhang En Rong	150,000,000.00	17th Jan 2017	16th Jan 2020	Interest Free
Zhang En Rong	60,000,000.00	5th Apr 2017	4th Apr 2020	Interest Free

6. *Account receivables and payable of related party*

(1) Account receivables

Unit: RMB

Items	Related party	Balance at the end of the period		Balance at the beginning of the period	
		Carrying amount	Provision for bad debt	Carrying amount	Provision for bad debt
Account receivables	Ya'long Karamay Petroleum Machinery Co., Ltd.	652,922.26	—	1,836,430.15	—

XIII. Share-based payment

1. *Overview of share-based payment*

☐ Applicable ☒ Not Applicable

2. *Situation of share-based equity-based payment*

☐ Applicable ☒ Not Applicable

3. *Situation of share-based cash-based payment*

☐ Applicable ☒ Not Applicable

4. *Situation in respect of modification or termination of share-based payment*

Nil.

5. *Other*

Nil.

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XIV Commitment and Contingency

1. Significant commitment

(1) Capital expenditure commitment of the Group at the end of the year

The capital expenditure commitments that have been contracted for but not recognised in the financial statements

Items	Amounts at the end of the year	Amounts at the beginning of the year
Commitment for acquisition and construction of long-term assets that have been contracted for but not recognised in the financial statements	52,766,186.46	—
Total	52,766,186.46	—

(2) Capital Commitment in previous period

The Group had executed as stated in contracts.

(3) Other than the commitment stated above, there is no other material commitment up to 30 June 2017

2. Contingency

(1) Material contingencies at balance sheet date

- Jinan Water Treatment Equipment Co., Ltd. (hereinafter referred to as “Jinan Water Treatment Company”) and Mao Long New Materials Company entered into contract in respect of seawater desalination equipment supply, hereafter Jinan Water Treatment Company is failed to perform the delivery and installation work as required by the contract. Due to the dispute between the two sides on the termination of the contract and the existence of liability for breach of contract, Jinan Water Treatment Company prosecuted Mao Long New Materials Company and the Company regarding the payment of goods. The Company counterclaimed Jinan Water Treatment Company to return the payment of goods paid more and compensate for the losses. Jinan Water Treatment Company applied to the court for property preservation and the company provided pledge guarantee to the court with the unexpired banker's acceptance bill of RMB5.9 million. So the court did not seal up the Company's other property. The case is currently in the process of first instance and the Company believes that the possibility of winning on Jinan water Treatment Company is very small, which will not cause losses to the company.
- Deer Group Co., Ltd. (hereinafter referred to as “Deere”) and Mao Long New Materials Company entered into a contract about waste heat power generation installation project construction. As Deere did not perform the contract on schedule, and there is a blast accident when hot commissioning, which lead to damage and the construction is delayed. Therefore Mao Long New Materials Company initiated legal proceedings to the Shouguang People's Court. Deere Company counterclaimed to Weifang Intermediate People's Court. Until now, the cases with Deere are in the process of the first instance and the Company believes that the possibility of winning the lawsuit on Mao Long New Materials Company is very high. The possibility of winning on counterclaim of Deere is smaller.

- (2) Material contingency is not required to be disclosed, but need to explain

There is no other material to be disclosed.

XV. Events Subsequent to Balance Sheet Date

1. Profit Distribution

Unit: RMB

Proposed profit distribution and dividend	0.00
Considered and approved profit distribution and dividend	0.00

2. Sales Return

Up to the issuance of this report, there is no any sales return.

3. Other Events Subsequent to Balance Sheet Date

There is no other events subsequent to balance sheet date during the report period.

XVI. Other significant items

1. Segment Information

(1) Basis for determining segments and accounting policies

(1) Basis for determining segments

According to the internal organization structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 4 reportable segments. The Group identifies the operating segments according to the internal organization structure, management requirements and internal reporting system. The Group's management regularly evaluates the operating results of these reportable segments to determine the resources to be allocated and its results to be evaluated. The main products provided by each of the Group's reportable segments includes casing, tubing, three kinds of pumping units, petroleum machinery and others.

(2) Accounting policies of reporting segment

Segment reporting information is disclosed in accordance to the accounting policies and measurement standards adopted for reporting to the management by each segment, which are consistent with the accounting policies and measurement basis for preparing financial statements.

(2) Financial Information of Reporting Information

Unit: RMB

Items	Casing and Tubing	Three kinds of pumping units	Petroleum machinery plant	Others	Unallocated Items	Inter-segment elimination	Total
Operation revenue							
External income	1,156,069,300.42	14,862,925.06	24,865,181.48	27,031,238.68	—	—	1,222,828,645.65
Inter-segment income	—	—	—	—	—	—	—
Total segment operation income	1,156,069,300.42	14,862,925.06	24,865,181.48	27,031,238.68	—	—	1,222,828,645.65
Total operating income in financial statements	1,156,069,300.42	14,862,925.06	24,865,181.48	27,031,238.68	—	—	1,222,828,645.65
Segment cost	1,253,399,502.42	14,100,350.89	19,710,956.16	31,085,157.93	—	—	1,318,295,967.41
Segment operation profit	(97,330,202.00)	762,574.17	5,154,225.32	(4,053,919.25)	—	—	(95,467,321.76)
Adjusting items:							
Administrative expenses	—	—	—	—	40,253,706.72	—	40,253,706.72
Finance costs	—	—	—	—	62,349,474.80	—	62,349,474.80
Investment income	—	—	—	—	—	—	—
Operating profit in financial statements	(97,330,202.00)	762,574.17	5,154,225.32	(4,053,919.25)	(102,603,181.52)	—	(198,070,503.28)
Non-operating income	—	—	—	—	211,657,656.22	—	211,657,656.22
Non-operating expenses	—	—	—	—	7,643,406.02	—	7,643,406.02
Total profit	(97,330,202.00)	762,574.17	5,154,225.32	(4,053,919.25)	101,411,068.68	—	5,943,746.92
Income tax	—	—	—	—	589,327.01	—	589,327.01
Net profit	(97,330,202.00)	762,574.17	5,154,225.32	(4,053,919.25)	100,821,741.67	—	5,354,419.91
Total segment assets	4,732,756,550.47	74,923,790.43	147,363,918.00	134,137,789.37	680,246,587.04	—	5,769,428,635.30
Total segment liabilities	2,591,377,978.97	19,612,658.31	54,800,638.46	10,203,019.19	1,201,694,623.69	—	3,877,688,918.62
Supplementary Information:							
Depreciation	92,776,790.43	1,185,044.29	7,745,619.52	2,457,272.56	—	—	121,247,239.52
Amortisation	7,349,906.97	—	457,893.07	—	4,300,826.70	—	12,108,626.74
Interest income	—	—	—	—	(3,621,643.53)	—	(3,621,643.53)
Finance cost	—	—	—	—	65,971,118.33	—	65,971,118.33
Impairment losses recognized in this year:	13,021,283.97	—	—	—	—	—	13,021,283.97
Non-current assets other than long-term equity investment	3,073,855,289.18	19,347,279.93	38,176,532.62	392,589,851.48	29,591,787.22	—	3,553,560,740.43
Capital expenditure	50,055,065.55	10,964.11	19,247.01	1,401,217.98	—	—	51,486,494.65
Including: Construction in progress	17,151,196.97	—	—	701,228.24	—	—	17,852,425.21
Purchase of fixed assets	32,903,868.58	10,964.11	19,247.01	699,989.74	—	—	33,634,069.44
Purchase of intangible assets	—	—	—	—	—	—	—
Purchase of equity interest	—	—	—	—	—	—	—

2. Other significant transaction and item effected on the decision of investor

There is no other significant transaction and item effected on the decision of investor during this report period.

XVII. Notes to principal items in the financial statements of the Company

1. Accounts Receivable

(1) Accounts receivable by category are disclosed below

Unit: RMB

Categories	Balance at the end of the period					Balance at the beginning of the period				
	Carrying amount		Provision of bad debt			Carrying amount		Provision of bad debts		
	Amount	Ratio	Amount	Proportion	Book value	Amount	Ratio	Amount	Proportion	Book value
Accounts receivable										
individually significant										
for which provision for										
bad debts has been										
individually made	141,980,849.22	23.76%	81,105,311.49	57.12%	60,875,537.73	112,268,032.58	17.17%	67,648,771.75	60.26%	44,619,260.83
Accounts receivable for										
which provision for bad										
debts has been made										
on group basis by credit										
risk characteristics	444,911,491.81	74.45%	—	—	444,911,491.81	529,952,133.72	81.04%	—	—	529,952,133.72
Accounts receivable										
individually insignificant										
but for which provision										
for bad debts has been										
individually made	10,756,980.90	1.79%	8,913,056.87	82.86%	1,843,924.03	11,699,773.50	1.79%	9,414,581.16	80.47%	2,285,192.34
Total	597,649,321.93	100.00%	90,018,368.36	—	507,630,953.57	653,919,939.80	100.00%	77,063,352.91	—	576,856,586.89

Accounts receivable individually significant for which provision for bad debts has been individually made at the end of the period:

☒ Applicable ☐ Not applicable

Unit: RMB

Account receivables (By Company)	Account receivables	Balance at the end of the period		Reasons for provision
		Provision of bad debts	Proportion	
Peak Pipe and Supply, LLC	65,430,487.53	25,757,036.85	39.37%	Long outstanding and little refund with lower possibility of recovery
Shandong Coal Machinery Equipment Co., Ltd.	25,411,133.71	23,976,383.83	94.35%	Long outstanding and bad business condition of client with lower possibility of recovery
Fairmont International Oil Companies	16,247,894.32	9,748,736.61	60.00%	Long outstanding and little refund with lower possibility of recovery
Dong 'e Luen Hing Metal Products Co., LTD	13,398,450.00	10,718,760.00	80.00%	Aging over three years with lower possibility of recovery
UNIX Technology Company	13,235,611.83	2,647,122.37	20.00%	Long outstanding and difficult to recover
Wenlai Jinlong Investment Company Limited, Beijing Office	8,257,271.83	8,257,271.83	100.00%	Long outstanding and difficult to recover
Total	141,980,849.22	81,105,311.49	—	

Accounts receivable for which provision for bad debts has been made by age analysis in groups:

☐ Applicable ☒ Not Applicable

Accounts receivable for which the provisions for bad debt has been made by balance percentage in groups:

☐ Applicable ☒ Not Applicable

Accounts receivable for which the provisions for bad debt has been made by other methods in groups:

Companies	Carrying amount	Amount for bad debt	Proportion	Reason for proportion
SBI Company (USA)	4,316,839.40	4,316,839.40	100.00%	Aging over three years with lower possibility of recovery
Samasu International Oil Corporation	3,278,182.70	2,014,119.63	61.44%	Aging over three years with lower possibility of recovery
Metal One Corporation	1,176,372.05	722,764.49	61.44%	Aging over three years with lower possibility of recovery
South China Petrochemical Group	1,109,486.42	1,109,486.42	100.00%	Long outstanding with lower possibility of recovery
China Petroleum Technology Development Corporation	594,152.90	594,152.90	100.00%	Long outstanding with lower possibility of recovery
Imex Amy, Canadian Companies	180,362.00	54,108.60	30.00%	Long outstanding and little refund with recovery at risk
Hanting Energy Resource Private Service Company Limited	101,585.43	101,585.43	100.00%	Long outstanding with lower possibility of recovery
Total	10,756,980.90	8,913,056.87	—	

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(2) Provision, recovery or reversal of the provision for bad debts during the period

The amount of provision for bad debts during the period amounted to RMB 13,456,539.73; and the amount of recovery or reversal of the provision for bad debts during the period amounted to RMB 501,524.29.

Significant amounts of provision for bad debt recovered or reversed for the period:

Unit: RMB

Companies	Recovery or reversal amount	Recovery method
DIS of Indonesia	501,524.29	Payment for goods
Total	501,524.29	

(3) Trade receivables actually written off during the period

There is no trade receivables actually written off during the reporting period.

(4) Top five trade receivables by ending balance collection of the borrower:

Companies	Amounts	Aging	Percentage of the total accounts receivable (%)	Closing balance of bad debt provision
Peak Pipe and Supply, LLC	65,430,487.53	Within one year	18.37	25,757,036.86
HeBei ZhongTai Steel Pipe Manufacture Co., Limited	573,300.00	Within one year	0.16	—
Shandong Coal Machinery Equipment Co., Ltd.	35,442,696.73	1 to 2 years	9.96	—
	4,976,482.68	2 to 3 years	1.4	3,541,732.81
Fairmont International Oil Corporation	20,434,651.03	3 to 4 years	5.74	20,434,651.03
	468,652.36	Within one year	0.13	—
	15,779,241.96	1 to 2 years	4.43	9,748,736.60
Shandong Ruimai trade company	14,432,719.12	Within one year	4.05	—
Total	157,538,231.41		44.24	59,482,157.30

2. Other receivables

(1) Disclosure of Classification of Other Receivables

Unit: RMB

Types	Balance at the end of the period					Balance at the beginning of the period				
	Carrying Amount	Ratio	Provision for bad debt	Proportion	Book value	Carrying Amount	Ratio	Provision for bad debt	Proportion	Book value
Other receivable individually significant for which provision for bad debts has been individually made	35,391,821.96	10.35%	10,617,546.59	30.00%	24,774,275.37	35,391,821.96	10.13%	10,617,546.59	30.00%	24,774,275.37
Other receivable for which provision for bad debts has been made on group basis by credit risk characteristics	306,650,747.78	89.62%	—	—	306,650,747.78	313,872,004.26	89.84%	—	—	313,872,004.26
Other receivable individually insignificant but for which provision for bad debts has been individually made	122,119.25	0.03%	122,119.25	100.00%	—	122,119.25	0.03%	122,119.25	100.00%	—
Total	342,164,688.99	100.00%	10,739,665.84	—	331,425,023.15	349,385,945.47	100.00%	10,739,665.84	—	338,646,279.63

Other receivable individually significant for which provision for bad debts has been individually made at the end of the period:

☒ Applicable ☐ Not Applicable

Unit: RMB

Other receivable (Company basis)	Other receivable	Closing balance		
		Provision for bad debt	Provision proportion	Provision reason
JESORO OIL LTD	35,391,821.96	10,617,546.59	30.00%	Overdue with recovery at risk
Total	35,391,821.96	10,617,546.59	—	

Other receivable for which provision for bad debts has been made by age analysis in groups:

☐ Applicable ☒ Not Applicable

Other receivable for which the provisions for bad debt has been made by balance percentage in groups:

☐ Applicable ☒ Not Applicable

Other receivable for which the provisions for bad debt has been made by other methods in groups:

☒ Applicable ☐ Not Applicable

Companies	Carrying amount	Amount for Bad debt	Provision proportion (%)	Provision reason
Wang Li Xue	40,000.00	40,000.00	100	Aging is long, cannot recover
Other Company	14,220.00	14,220.00	100	Aging is long, cannot recover
Other personal	67,899.25	67,899.25	100	Aging is long, cannot recover
Total	122,119.25	122,119.25	—	

(2) Provision, recovery or reversal of the provision for bad debts during the period

The amount of provision for bad debts during the period amounted to RMB 0.00; and the amount of recovery or reversal of the provision for bad debts during the period amounted to RMB 0.00.

(3) Other receivables actually written off during the period

There is no other receivables actually written off during the reporting period.

(4) Reclassification of other receivables by nature

Unit: RMB

Nature of payment	Balance at the end of the period	Balance at the beginning of the period
Current account	326,183,769.74	331,259,856.83
Deposits	1,022,499.25	17,000,290.14
Individuals	14,958,420.00	1,125,798.50
Total	342,164,688.99	349,385,945.47

(5) Top five other receivables according to closing balance of debtors

Unit: RMB

Name of entity	Nature	Closing balance	Aging	Percentage of closing balance of total other receivables	Closing balance of bad debt provision
Shouguang Maolong New Materials Company Limited	Current account	136,353,548.92	within 1 year	39.85%	—
Shouguang Maolong New Materials Company Limited	Current account	81,030,958.14	1–2 years	23.68%	—
JESORO OIL LTD	Current account	35,391,821.96	2–3 years	10.34%	10,617,546.59
Shouguang Molong Logistic Company Limited	Current account	34,120,904.68	within 1 year	9.97%	—
Shouguang Baolong Petroleum Material Company Limited	Current account	34,097,512.00	3–4 years	9.97%	—
Shouguang City, Yang Kou Town Finance Department	Construction project deposit	14,530,000.00	3–4 years	4.25%	—
Total		335,524,745.70		98.06%	10,617,546.59

(6) The receivables related to government subsidy

There is no other receivables related to government subsidy during the reporting period.

3. Long-term equity investment

Unit: RMB

Items	Balance at the end of the period			Balance at the beginning of the period		
	Carrying Amount	Impairment provision	Book value	Carrying Amount	Impairment provision	Book value
Investment in subsidiaries	1,352,069,921.73	208,000,000.00	1,144,069,921.73	1,352,069,921.73	208,000,000.00	1,144,069,921.73
Total	1,352,069,921.73	208,000,000.00	1,144,069,921.73	1,352,069,921.73	208,000,000.00	1,144,069,921.73

(1) Investment in subsidiaries

Unit: RMB

Investees	Balance at the beginning of the period	Additions	Reductions	Balance at the end of the period	Provision of impairment for the period	Provision of impairment at the end of the period
Maolong New Materials Company	1,006,743,691.73	—	—	1,006,743,691.73	—	—
Weihai Baolong	220,000,000.00	—	—	220,000,000.00	—	103,000,000.00
MPM Limited	7,276,230.00	—	—	7,276,230.00	—	—
Shouguang Baolong	105,000,000.00	—	—	105,000,000.00	—	105,000,000.00
Molong Logistic Company	3,000,000.00	—	—	3,000,000.00	—	—
Maolong Recycle	50,000.00	—	—	50,000.00	—	—
Molong Import and Export Corporation	10,000,000.00	—	—	10,000,000.00	—	—
Total	1,352,069,921.73	—	—	1,352,069,921.73	—	208,000,000.00

(2) Other description

As at 30 June 2017, there is no restriction on the Company of transferring capital from investee companies which the Group had long-term equity investment.

4. Operating Revenue and Operating Costs

Unit: RMB

Items	Amounts for the reporting period		Amounts for the prior period	
	Revenue	Cost	Revenue	Cost
Main business	1,008,487,016.42	940,514,900.71	618,753,316.52	623,719,189.33
Other business	79,272,506.22	77,914,401.49	26,825,998.05	25,522,222.56
Total	1,087,759,522.64	1,018,429,302.20	645,579,314.57	649,241,411.89

XVIII. Supplementary Information

1. Statement of non-recurring profit and loss for the current period

Unit: RMB

Items	Amount	Note
Profit or loss on disposal of non-current assets	59,382,050.06	—
Government subsidies in profit and loss of the period(excluding those government subsidies closely related to corporate business, fixed in accordance with the national standard or enjoyed quantitatively)	150,118,600.00	—
In addition to the above, the non-operating income and expenditure	(5,486,399.86)	—
Less: Income tax effect	30,589,263.49	—
Effect of minority interests	8,287.52	—
Total	173,416,699.19	—

2. Return on Net Assets and Earnings per Share

Profit during the reporting period	Weighted average return on net assets	Earnings per share	
		Basic (RMB/Share)	Diluted (RMB/Share)
Net profit attributable to holders of ordinary shares of the Company	0.39%	0.0088	0.0088
Net profit attributable to holders of ordinary shares of the Company after deducting the non-recurring gain and loss	-9.13%	-0.21	-0.21

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3. Difference in accounting data under domestic and overseas accounting standards

- (1) Differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report

☐ Applicable ☒ Not Applicable

- (2) Differences between the net profit and net assets disclosed in accordance with overseas accounting standards and China accounting standards in the financial report

☐ Applicable ☒ Not Applicable

XI. DOCUMENTS AVAILABLE FOR INSPECTION

- I. The financial statements signed and sealed by the legal representative, Accountant-in-charge and Partner-in-charge;
- II. The original copies of all of the documents and announcements of the Company disclosed in the designated newspaper as approved by China Securities Regulatory Commission during the reporting period;

